

04 H.R. 2108—THE DISTRICT OF COLUMBIA CONVEN-
TION CENTER AND SPORTS ARENA AUTHOR-
IZATION ACT OF 1995

4. G 74/9: S. HRG. 104-562

RING

H.R. 2108—The District of Columbia... E THE

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT AND THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

H.R. 2108

TO PERMIT THE WASHINGTON CONVENTION CENTER AUTHORITY TO
EXPEND REVENUES FOR THE OPERATION AND MAINTENANCE OF
THE EXISTING WASHINGTON CONVENTION CENTER AND FOR
PRECONSTRUCTION ACTIVITIES RELATING TO A NEW CONVENTION
CENTER IN THE DISTRICT OF COLUMBIA, TO PERMIT A DESIGNATED
AUTHORITY OF THE DISTRICT OF COLUMBIA TO BORROW FUNDS FOR
THE PRECONSTRUCTION ACTIVITIES RELATING TO A SPORTS ARENA
IN THE DISTRICT OF COLUMBIA AND TO PERMIT CERTAIN REVENUES
TO BE PLEDGED AS SECURITY FOR THE BORROWING OF SUCH
FUNDS, AND FOR OTHER PURPOSES.

AUGUST 9, 1995

Printed for the use of the Committee on Governmental Affairs



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WASHINGTON : 1996

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H.R. 2108—THE DISTRICT OF COLUMBIA CONVENTION CENTER AND SPORTS ARENA AUTHORIZATION ACT OF 1995

WEDNESDAY, AUGUST 9, 1995

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 2:04 p.m., in room SD-342, Dirksen Senate Office Building, Hon. William S. Cohen, Chairman of the Subcommittee, presiding.

Present: Senator Cohen.

Staff Present: Kim Corthell, Staff Director; Paulina Collins, Professional Staff Member; Frankie de Vergie, Chief Clerk; Andrea Gerber, Staff Assistant; Scott Parr, Minority Legislative Fellow; Andrea Bier, Majority Intern; Kathy Dunn, Minority Intern.

OPENING STATEMENT OF SENATOR COHEN

Senator COHEN. The Committee will come to order. Welcome.

The subject of this afternoon's hearing is H.R. 2108. This legislation, which passed the House of Representatives last Friday, has two purposes. The first is to authorize the District of Columbia to pledge revenues generated by the sports arena tax as security to borrow funds. These funds are to be used to pay for pre-construction activities, mostly site acquisition and preparation for the new arena to be built in the Gallery Place area.

Over the next several years, revenue from the new arena tax, which has been imposed on the District's business community, will be used to repay the debt.

The second purpose is to authorize the Washington Convention Center Authority to spend certain revenues for operating the current convention center and for costs associated with developing plans for the new convention center. These revenues also are generated by a special tax, in this instance, a special tax imposed on the District's hotels and restaurants.

Both of these projects are considered critically important to the future economic stability and growth of the District. They, therefore, deserve more than a perfunctory review by the Senate.

The financial recovery of the Nation's capital is important not only to those who live in the District and the surrounding areas, but to all Americans. A new convention center and sports arena will help to revitalize areas of the city, generate badly needed reve-

nue for the District, and create new businesses and jobs for the residents of the District and surrounding communities.

While the existing convention center is little more than a decade old—personally I find it ironic that we are already talking about building a new one—it is now too small to accommodate the demands of today's larger and more profitable conventions and trade shows. As a result, convention-related revenue is dropping, to the detriment of both the District Government and the area businesses.

Like the proposed sports arena, a new convention center is going to help stimulate the local economy, enhance civic pride, and promote tourism. As a result, both projects have broad-based support among the local citizens and businesses.

I should note, however, that since the scheduling of this hearing, the Subcommittee has heard from a number of individuals and organizations who have concerns regarding the sports arena, many of whom oppose the construction at the Gallery Place site. I have indicated to them, and will say here, that this hearing is not the proper forum for those who oppose, for example, construction of the arena because of concerns regarding historic preservation or disagree with the taxes which have been imposed on the District businesses to help pay for these projects.

It is also beyond the scope of this hearing to resolve any controversies surrounding the process by which the agreement for the new arena has been reached. These are matters for the citizens of the District and their elected representatives to decide and for the appropriate regulatory and judicial forums to resolve.

I should also point out that any action by Congress on this bill before us should not be construed as interfering with or in any way affecting the administrative or legal rights of any individual or organization pertaining to the District's decisions on the arena or convention center. Just as we do not take up these issues, we cannot preclude or foreclose those issues being brought in the appropriate forum.

The responsibility for the Subcommittee and, ultimately, the Congress is to examine the financial soundness of the District's plans for spending these special tax revenues. In light of the District's current financial crisis, there is an even greater obligation to ensure the District is proceeding in a fiscally responsible manner before the Congress approves the pending legislation.

We are first going to hear this afternoon from representatives of GAO, who have examined the methodology used for the revenue projections of the dedicated taxes for both projects, and has reviewed the documentation supporting the estimates of predevelopment costs and the financing for the sports arena project. Then we will hear from a panel of representatives of the District Government who can discuss the details of the proposed projects, and finally, we will hear from the representatives of the banking institutions which have agreed to provide financing for the District's costs of the arena project.

Senator COHEN. Mr. Holloway, you may proceed. I will have some questions for all of the witnesses, but please proceed as you see fit. I am hoping we will not be interrupted too many times this afternoon by votes on the floor, but if you can summarize your tes-

timony, your written statements will be included in the record in full.

I might add, by way of at least parenthetical expression, those who have expressed opposition to the construction of the facilities will also have the opportunity to submit their statements for the record. Those concerns, however, will not be taken up during the course of these proceedings.

Mr. Holloway?

TESTIMONY OF GREGORY M. HOLLOWAY,¹ DIRECTOR, CIVIL AUDITS, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY CHARLES W. CULKIN, JR., ASSISTANT DIRECTOR, CIVIL AUDITS, AND RICHARD T. CAMBOSOS, SENIOR ATTORNEY, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION

Mr. HOLLOWAY. Thank you, Chairman Cohen. I will be brief and give way to Q and A.

I have with me today Charles Culkin, assistant director of my staff, who is responsible for the sports arena work, as well as Rich Cambosos, from our office of general counsel, who I might add is also a District resident and very engaged in some of these issues.

We are here today to give the status of the arena project, and I want to mention a few things and then give way to any questions that you might have.

Basically, the primary cost drivers of the project are the land acquisition, estimated at around \$30 million and it is based on certified appraisals, and the cost associated with the Metrorail connection, which currently is estimated at \$13.5 million. That cost in particular is subjected to the possibility of getting a grant that would lower the District's needs for additional funding from the projected \$53 million down to about \$42 million.

From everything that we can see, based on the costs that have been projected, they appear to be reasonable, and the means of financing appears to be fiscally responsible in being able to meet the funding needs of this project.

I do not want to belabor the discussion, other than to say that from every indication we have the estimated project costs are reasonable. Recognizing this is at a very early stage and that costs associated with any construction project tend to change as you move further into it. For example, in the case of the Metrorail connection, the results of an environmental study could change the Metrorail connection costs. It should be noted that the grant being sought is a \$15 million grant, so that if the costs were to increase above the projected \$13.5 million, there would be at least \$1.5 million of additional funds to cover that cost.

That is basically the status of where we stand. They have received revenues associated with the arena tax to the tune of about \$8 million already, which would suggest that clearly the proposed tax, if enacted, and being allowed to be used for this purpose, would be able to service the debt payment of the proposed financing. And as we understand it, the District is currently looking at

¹ The prepared statement of Mr. Holloway appears on page 24.

alternative proposals to even improve the financing arrangement that they already have.

That basically is where we stand, and at this time, I would like to give way to any questions that you might have.

Senator COHEN. Thank you.

Mr. Holloway, you indicated that they have collected \$8 million so far assuming the tax is allowed to stand. They have already passed the tax, have they not, as of January?

Mr. HOLLOWAY. That is correct?

Senator COHEN. The arena tax is expected to raise \$9 million a year, is that correct?

Mr. HOLLOWAY. That is correct.

Senator COHEN. Would these numbers seem to indicate that they are ahead of the projection? If you have \$8 million now—is that a fiscal year or calendar year—

Mr. HOLLOWAY. I think it is about right on the projection. I believe the fiscal year is September 30th, so you only have 1 month left, and I believe the original projection was around \$9.4 million that would be gained; I think it is pretty much on target.

Senator COHEN. OK. Is GAO satisfied or confident that the revenues that have been generated from this tax as well as the restaurant and hotel tax are properly escrowed? In GAO's opinion, are these revenues separate from the District's general fund accounts?

Mr. HOLLOWAY. As we understand it, they are properly escrowed.

Senator COHEN. Any doubt about it, Mr. Culkin?

Mr. CULKIN. No.

Senator COHEN. Am I correct in assuming that the \$9 million in revenue that is going to be generated through this tax can be used only for the service of the debt on the loan that is being offered by the bank consortium? Can it be spent on anything else other than to pay the loan?

Mr. HOLLOWAY. I believe some of the costs associated with the portion that has already been collected are expected to be used to pay for some of the predevelopment costs that have already been incurred. So I guess the short answer to that is that the taxes are expected to be committed toward costs associated with this arena project.

Rich, do you want to add anything to that in terms of any legal restraints?

Mr. CAMBOSOS. No. Costs must be related to the project, including some costs that have already been incurred that will be reimbursed from the taxes that have been collected.

Senator COHEN. We will get to the banks later, but I assume that this is satisfactory to the banks? The money that is being generated is not to be used exclusively for the repayment of the loan, but for some predevelopment costs?

Mr. CULKIN. The banks have laid out very tight requirements in their commitment letter to the city, stating how these funds are going to be used. The funds can only be used for the arena project. As a matter of fact, the funds are going to a lock box, and it is a lock box at one of the banks that is part of the financing syndication.

Senator COHEN. I understand, but it is one thing to repay the loan, and another to use revenues for expenses surrounding the

project. The \$9 million can go for anything related to the project, then?

Mr. HOLLOWAY. I think the covenants are a little more restrictive than that, and I do know that the banks as part of their commitment have an interest reserve that is part of the deal, which further assures some guarantee or reserve against nonpayment.

Charlie alluded to the lock box arrangement, and they say possession is nine-tenths of the law. That would suggest that the moneys would be coming into one of the banks in the syndication, so that if there were any question about the collectability of their funds—and I believe as proposed in the legislation, the revenues would be security for the loan, which would also give them the ability to take those moneys as they come in. I do not think the banks are exposed. I think their concerns would be met.

Senator COHEN. OK. I will ask the banks.

Mr. CAMBOSOS. Further, the bill that was passed by the House ties down what pre-construction activities may be funded under this authority. So that is an additional constraint.

Senator COHEN. Let me take a different tack. Let us suppose they have a great year, locally, and the tax collected actually exceeds the \$9 million projection. What can the city do at that time? Can it expend it for something other than repaying the loan? Can it perhaps accelerate its payment? What does the city do with the money, assuming it has more than \$9 million?

Mr. HOLLOWAY. I would suspect that they can accelerate the payment for sure, but I believe there are some pretty strong restrictions about spending it on anything other than the construction of this arena.

Mr. CULKIN. Mr. Chairman, the intent, if they have excess revenues over what they need, is to pay down on the principal amount. The objective is to pay this loan off as quickly as possible.

Senator COHEN. And so I assume there would be no prepayment penalties, then?

Mr. CULKIN. No, there is no prepayment penalty. We verified that with the bank.

Senator COHEN. Mr. Holloway, when you talked about how we all know that some of these costs can exceed the original projections, you struck a chord with me. I am thinking now about the tunnel that is being built through Boston. In 1983, the cost of that central artery third harbor tunnel was projected to be \$2.3 billion. Do you have any idea what it is today?

Mr. HOLLOWAY. Based on what you have just suggested, I would presume probably several multiples beyond that.

Senator COHEN. It is \$10.6 billion today. So it is hard to predict exactly what kinds of problems you are going to run into. You talked about environmental remediation and other problems. I am not familiar with what could be encountered while putting the Metro underneath the arena and all the associated environmental aspects of that. Look at what happened with the Boston tunnel—\$2.3 billion swelling to \$10.6 billion a decade later. I am mindful of the fact that the Channel that was built between England and France only cost \$14 billion, and yet we are talking about something considerably smaller in Boston costing close to that figure, I

think we ought to at least be concerned about what might happen in D.C.

What if the pre-construction costs actually exceed the \$56 million that we are looking at now? Who is responsible for paying additional costs? Is it the city? Does it come from the arena tax? I am not familiar with the mechanism, but what happens if we go from \$56 million to, let us say, \$75 million or \$100 million, or whatever the figure might be? Where does the money come from? Does it come from the arena tax? Does it come from the general fund?

Mr. HOLLOWAY. As it is structured right now—and Rich can elaborate on this—I believe the predevelopment costs are the responsibility of the city, and part of the purpose of the arena tax is to cover those costs, whatever they might turn out to be, even though these are projections.

So I would certainly offer to you that we will be monitoring these costs as we proceed, and as I alluded to earlier, it is still real early in the process, but I think it is extremely important. And while I do not think we will ever get to the values of the Boston tunnel, we would certainly—

Senator COHEN. I know my comment about the Boston tunnel is going to reach the Governor of Massachusetts and is bound to stir up some controversy. But we have been looking at how costs are projected, what they actually materialize to be, and, of course, we end up paying a good portion of the bill.

My concern here is whether everybody is satisfied that if the costs do in fact exceed the projections that the local businesses are going to be responsible for raising the money through an increased tax? Is that spelled out?

Mr. HOLLOWAY. I do believe there are provisions in it to allow for the rates to be raised in the event that that were to occur.

Mr. CULKIN. That is right. There is an escalator clause in the arena tax legislation that was passed by the City Council where, if there are not sufficient revenues to pay the debt service for a particular year, then the rates can be increased.

Senator COHEN. In other words, there will be no resort to the general fund in order to pay for these costs should they exceed the projections?

Mr. CAMBOSOS. They can also pledge additional security when they enter into the arrangement. The tax is to be pledged, but the bill does not foreclose the District from pledging additional security. At one point, they were discussing the ground lease rental payments as security. There may be other assets that could be pledged as security and the District is not foreclosed from offering, or the banks asking for additional pledges of security. There is also the potential for the Districts to structure the loan repayment period involved, to ensure that the annual debt service cost stays within projected tax collections. So the District does have some flexibility.

Senator COHEN. Again, it is clear that the general fund will not be tapped in order to meet any of these costs? If additional revenues are needed they will come from the arena tax?

Mr. CAMBOSOS. The District is not pledging the full faith and credit of the District of Columbia. That is what is clear.

Senator COHEN. In other words, it is not clear.

Mr. CAMBOSOS. Well, when you say you are not pledging your full faith and credit, you are saying that you would not resort necessarily to the general tax revenue as a source of finance to repay a debt; you are limiting it to the security pledged.

Mr. HOLLOWAY. In an effort to try to be even more specific, I think the right answer to your question is that there is nothing, at least that we know of—and Rich, you correct me if this is not true—that would preclude the possibility that if costs got excessive to a point where the level of taxes required on the arena tax was not tolerable that they could go to the general fund to attempt to pay for it. The expectation is that that would never occur and that these are reasonable costs. And I would certainly offer to you that one of the things that we will be doing is, on a real-time basis, is monitoring the progression of these costs so that if and at whatever point any significant change in these costs were to occur, we would certainly notify the Congress of that.

Senator COHEN. I just wanted to make it clear because everybody is operating under the assumption that the figure will stay at \$56 million or less, assuming the ISTEA grant goes through. So if we make these assumptions, everything will work out fine. If it turns out they run into major problems in trying to construct the Metro under the arena, and the costs start to escalate, you might in fact find some rebellion possibly among those who would be taxed to pay for it. If the city tries to go back to the general fund, then you have got other problems.

Mr. HOLLOWAY. I think that is a reasonable concern.

Mr. CULKIN. Mr. Chairman, I think one thing to point out is that the architectural firm that the Pollin organization has hired to do the design of the arena also designed the Metro Building which is built over the Red Line. The firm also did One Judiciary Square, which is built over the Red Line. So this firm is very familiar as far as the construction of the Metro subway system and related buildings.

Senator COHEN. Are you all satisfied that it is important to complete the legislation prior to the August recess in order to meet the deadlines that have been set up?

Mr. HOLLOWAY. I would think it is pretty imperative that that occur.

Senator COHEN. OK. I am told that we have received a letter of support for the convention center and the sports arena from the D.C. Financial Control Board. I want to note for the record that the D.C. Control Board was invited to testify at this hearing today. They are preoccupied, apparently, with other city matters and could not be here, but a statement from the Board will be a part of the record.¹

Senator COHEN. As I indicated, those who are in opposition to the projects have also been invited to submit statements for the record.

I want to urge GAO to stay on top of the projects and make sure that all the projections in fact stay pretty much on target, so we do not find ourselves in the situation that I discussed earlier in terms of unanticipated costs.

¹See page 76.

Thank you very much. If any of you can remain, we have two other panels which should not take a great deal of time. If there are any questions that arise, you might be available to answer questions.

Mr. HOLLOWAY. Thank you very much, Senator.

Senator COHEN. Thank you very much.

Senator COHEN. Our next panel consists of Merrick Malone, the Assistant City Administrator for Economic Development for the District of Columbia; the Honorable David Clarke, who is Chairman of the District of Columbia City Council; and Michelle D. Bernard, the Chairwoman for the Redevelopment Land Agency.

I am told that Chairman Clarke is running late.

While we are waiting for him, why don't you proceed, Mr. Malone?

TESTIMONY OF MERRICK MALONE,¹ ASSISTANT CITY ADMINISTRATOR FOR ECONOMIC DEVELOPMENT, DISTRICT OF COLUMBIA, ACCOMPANIED BY CLAUDE BAILEY, OFFICE OF CORPORATE COUNSEL, AND JAMES KERR, CHAIRPERSON, ARENA TASK FORCE

Mr. MALONE. Good afternoon, Chairman.

I am Merrick Malone, and I am the Assistant City Administrator for Economic Development as well as the Director of the Department of Housing and Community Development. I am here in my capacity as the Mayor's chief economic development officer and overall coordinator of this effort.

I am joined to my immediate right by the chairperson of the Redevelopment Land Agency, Michelle Bernard.

I think that you quite adequately summed up the benefits and why we really like this project. What I think I will do is, quite frankly, sum it up in terms of some of the terms and conditions and then be available for any questions that you may have.

On March 6, 1995, Mr. Pollin and Mayor Barry signed an exclusive development rights agreement which outlines the key elements of this transaction. Under this agreement, the Pollin organization would finance all costs associated with the design, construction, equipping and operation of the arena. This includes all infrastructure costs within the building's footprint, except for the demolition of buildings at 605 and 613 G Street and the utility relocation.

In addition to providing a long-term lease on the land, the District Government would agree to pay for demolition of the buildings, tie-in facilities to the Metro system, environmental remediation, land acquisition for two parcels which are required to complete the footprint, relocation of D.C. employees from the present buildings, off-site infrastructure costs, and securing all regulatory approvals necessary for construction.

The Pollin organization will lease the land from the Redevelopment Land Agency for a period of 30 years, with two 10-year renewal options.

The arena will be owned by Mr. Pollin or his successors. The leases will be binding on any subsequent owner or owners of the

¹ The prepared statement of Mr. Malone appears on page 45.

teams. The Pollin organization will manage the arena and be responsible for maintenance and replacement costs.

The price of the D.C. participation is estimated at \$56 million. With wide support in the business community, the District of Columbia Council passed an arena tax on for-profit businesses to finance the cost of the city's commitment.

The city has received a \$53 million commitment from the consortium of banks, which you will hear from after this panel, to immediately start implementation, so that time as well as money can be saved. As you have heard from the GAO panel, repayment of these obligations will be assured by an estimated \$9 million in revenues to be collected from the arena tax. And they have also spoken to the escalator that is provided for, included in the Council legislation that would permit upward adjustment of the arena tax in the event the collections would fail to cover the debt service—which we do not expect to happen.

H.R. 2108 would permit a designated District agency or authority to borrow funds to finance D.C.'s share of the development and construction of the sports arena in downtown Washington. The bill will also allow the District to pledge certain dedicated revenues as security for the borrowing of such funds.

I will say also, Mr. Chairman, that this process has been the subject of many reviews, a litany of reviews from Congress, the Council, now the National Capital Planning Commission, the Fine Arts Commission, the Chinatown Steering Committee. It is a long list, and although some of these reviews may have been seen as barriers, we see them as stepping stones, and we want to make sure that this project comes together and becomes a reality, and therefore, it requires the partnership of all these reviews that we have been going through.

We have spoken primarily of the arena, and I would like to speak very quickly to the convention center, which you again in your earlier statement outlined the benefits and where we are if we are to remain competitive in this major industry.

H.R. 2108 would authorize the obligation and expenditure of revenues for pre-construction activities associated with our proposed new convention center. This would include land acquisition, conducting the environmental impact studies, the architecture and design studies and surveys.

The estimated cost of completing the required studies and other pre-construction activities is approximately \$8.8 to \$12 million. This estimate includes \$6.3 to \$9 million for design and engineering, \$1.5 to \$2 million for special studies such as environmental, traffic and transportation, and \$1 million for project structuring and feasibility work.

The District has been collecting the revenue allocated for the convention center project and anticipating its use for these predevelopment costs for the project. However, the revenue cannot be used without the requested congressional authorization.

Therefore, we ask this Committee's favorable and expeditious consideration of H.R. 2108. We think that these are two of the most exciting projects in the history of the city and clearly will serve as catalysts for further economic development.

Thank you.

Senator COHEN. Thank you, Mr. Malone.

Senator COHEN. Ms. Bernard, do you have a statement?

**TESTIMONY OF MICHELLE D. BERNARD,¹ CHAIRPERSON,
DISTRICT OF COLUMBIA REDEVELOPMENT LAND AGENCY**

Ms. BERNARD. Yes, Mr. Chairman. My name is Michelle Bernard, and I am here today as Chairperson of the District of Columbia Redevelopment Land Agency, which is an instrumentality of the District of Columbia Government.

The RLA is, among other things, the District's financial agent for the new sports arena and will lease land owned by the RLA to D.C. Arena Associates, a District of Columbia limited partnership formed and controlled by Mr. Abe Pollin.

As chairperson of the RLA, I am pleased to appear before you today to testify in support of H.R. 2108, the District of Columbia Convention Center and Sports Arena Authorization Act of 1995. The arena project will be the bedrock of the economic revitalization of one of the District's many urban renewal areas in the 21st century, and as a citizen of the District and chairperson of the RLA board, I truly believe in this project and am personally fully committed to the development of the arena.

I have submitted a written statement for the record, and in the interest of time, I will just summarize my testimony and actually just go directly to the financing of the project.

In connection with the financing of the District's site acquisition and development costs, the RLA board is pleased to announce that, working in partnership with a consortium of local banks headed by Crestar Bank and NationsBank, the RLA board has agreed upon a financing package that we believe is the most economically sound transaction for the District. As I will discuss further, the package makes the most economic sense for the District and can be funded in time to meet the board's development schedule.

Until recently, the board had two proposals for consideration as the mechanism by which it would finance the site acquisition and development costs related to the project. The most significant factors distinguishing the proposals were that one proposal was a bank loan with a floating 30-day interest rate tied to LIBOR, and the other proposal was a combination tax-exempt bond issue with a blended fixed interest rate of 7.12 percent.

On balance, what the board did was take a look at both proposals and try to decide which was the best proposal for the District. The general consensus was that the fixed-rate financing was probably the most economically sound for the District. However, the board was faced with an immediate need to fund the cost of acquiring additional land, obtaining title on the entire envelope on the project, and beginning certain demolition and infrastructure improvements by August 16, 1995. A bond transaction could not be closed in that short a period of time.

Consequently, on July 20, 1995, the board voted to obtain interim financing from the banks under the condition that the RLA would not be subjected to any prepayment penalty whatsoever and that the banks forebear on requiring that the RLA hedge its inter-

¹ The prepared statement of Ms. Bernard appears on page 57

est rate exposure until October 31, 1995. And additionally, the board voted and agreed to pursue bond financing with the objective of closing any bond deal by mid-October 1995 and utilizing the proceeds of the transaction to immediately repay the bank loan.

On Tuesday, August 1, the RLA board, the banks, and the District of Columbia Government executed the bank loan commitments. Under the terms of the loan, the RLA board is borrowing funds with a floating 30-day interest rate tied to LIBOR plus 200 basis points and is not required to hedge its interest rate exposure until October 31, 1995, thereby giving the board ample room to close a fixed-rate bond transaction.

In connection with our pursuit of a bond deal, on Monday, August 7, the RLA issued a request for proposals for underwriting and investment banking services. Under the terms of the RFP, the responses to the RFP are due from underwriters on Monday, August 14, and we expect to close and deliver the bonds on October 11.

In conclusion, I would state that the RLA board, District elected officials, and our partners in the private sector are continuing to work extraordinarily hard on this project and have developed a financing transaction that we believe is in the best interest of the District and its citizenry.

At this time, I thank you for your invitation to testify before you today and welcome any questions.

Senator COHEN. Thank you very much, Ms. Bernard.

I can address my questions to both of you, and whomever feels more confident or comfortable in answering, please do.

I think we clarified this in the beginning with the GAO, but my understanding was that the \$9 million was to be used solely for debt service on the loan. That apparently is incorrect. The revenues can be used for pre-construction indebtedness. In other words, the \$9 million can be used for any expenses associated with the pre-construction costs. Is that correct?

Mr. MALONE. That is correct.

Senator COHEN. OK. I was under the impression that it was solely for debt retirement and not for the other expenses.

Ms. BERNARD. The pre-construction expenses are just one-time fees.

Senator COHEN. I think you clarified this, Mr. Malone, but if Mr. Pollin sells the Bullets or the Capitals, any future owner is bound by the terms of this arrangement?

Mr. MALONE. Would be subject to this lease; that is correct.

Senator COHEN. OK. Now, if the contract were broken—let us assume that some new owner 10 years from now decides he wants to go to Florida—what are the consequences of someone taking the teams and moving out of the city? Do you get the building automatically under the terms of the lease? I have not reviewed the lease. What would be the consequences for someone who says, “You know, D.C. is not what it is cracked up to be in terms of the turnout; we think we have a more profitable operation going down in Florida or California.” What happens to the city? Does it get the building as of that time? We will talk about the taxes in a moment, but I understand that taxes are not being paid. There is a lease payment being paid on a yearly basis that goes, as I understand

it, from \$300,000 up to \$1.3 million over the course of the arrangement.

Mr. MALONE. That is right.

Senator COHEN. In terms of the lease itself, what happens should, 10 years from now, the teams move out? What does the city end up with?

Mr. MALONE. Well, I think that the transactional document as it relates to the lease and financing, as the lawyers come together, they will negotiate that in terms of what happens.

Under the current terms of the agreement—and that is being negotiated right now, the lease to the building and the transaction which we will work out—what would generally happen is that certainly there would be litigation, as you well know, and obviously, there will be damages for that kind of thing. But we are supposed to have ownership of the building at the end of the lease term, anyway. At the end of the 30 years plus the option, we would have the building anyway. That is something that is going to have to be negotiated in the lease.

Senator COHEN. I am just handed a note that says Chairman Clarke will be here sometime before 3 p.m. I am not sure I am going to hold you until that time, but we will see how the questioning goes.

Mr. MALONE. We have what they call a land disposition agreement, which is before the final—right now, when we have an exclusive right agreement, that means it is a progress document that says you have got to meet all of these—for instance, the demonstration of financing capability. Now, at the end, when the final lease agreement is worked through, what they call the land disposition agreement, contained in that land disposition agreement will be the terms that you reference concerning what damages would take place in the event a team left or tried to leave.

Senator COHEN. I think that is important to clarify before everything is finalized and you go forward—

Mr. MALONE. We do, too.

Senator COHEN [continuing]. Given the profitability and the amount of money that can be made in teams today, someone might decide that this is not a great location. We hope that that is not the case, but if they do, you want to be certain about what happens to the building. As I understand the terms of the lease, at the end of 30 years, if Mr. Pollin or his successors or assigns were not to exercise the option, the city gets title to the building at that point?

Mr. MALONE. That is correct.

Senator COHEN. And the only rent is rent that is being paid to the city for the use of the land, as I understand it.

Mr. MALONE. That is correct.

Senator COHEN. He owns the building for 30 years, 40 years, possibly 50 years, and then you have got the land. He pays “x” amount in rent from \$300,000 to \$1.3 million?

Mr. MALONE. The ground lease, that is correct.

Ms. BERNARD. Mr. Chairman, I would add also, just as a matter of litigation, were we to be faced with a situation where the teams were leaving after 10 years or any amount of time, the District I am quite sure would move very quickly for a temporary restraining order, because of the possibility of economic harm to the District.

So there is always that possibility that you could prevent that from happening.

Senator COHEN. You mentioned, I believe, Mr. Malone, a financing agreement. I want to talk about the details of the financing agreement with the District that RLA recently approved. That was combining the bank loan option and terms of searching for long-term financing. Could you explain that just a little bit more for me?

Ms. BERNARD. Sure. The District needs to be able to have funds available by August 16th, and there was no way we could close a bond transaction that quickly, so we decided to take an interim bank loan.

Senator COHEN. So you want to basically market tax-exempt bonds.

Ms. BERNARD. Exactly.

Senator COHEN. And you need time, until October 31st, in order to do that?

Ms. BERNARD. Absolutely.

Senator COHEN. And that is what this arrangement is?

Ms. BERNARD. That is correct.

Senator COHEN. OK.

Mr. MALONE. We actually feel, Senator, that we have the best of both worlds because we have a commitment which allows us to proceed to keep with the schedule that we are on right now, and at the same time, get the best possible financing for the city.

Senator COHEN. Can you tell me what the status is of the ISTEA grant? You are looking for \$15 million?

Mr. MALONE. That is correct. From all that we understand, it is very close to reality. We have proceeded with the assumption that that did not exist, but it is now closer to being a reality, and we understand it could be approved as early as next week.

Senator COHEN. There have been a number of articles in the press recently about the District's plan to relocate some 720 employees currently housed in buildings that are going to be demolished. According to these reports, the Council was expected to vote on a proposal from the Mayor to lease space for employees in two buildings owned by a local developer. My understanding is the Council learned that the city has never independently confirmed whether the vacant buildings could be renovated by the October deadline, and as a result, the Council did not vote on, I believe it was, a \$48 million lease.

Ms. BERNARD. That figure is correct, yes.

Senator COHEN. With the exception of the first year's cost for leasing buildings to put employees in, leasing costs are not a part of the \$56 million. Is that correct?

Mr. MALONE. Right. It does not extend beyond that; you are absolutely correct.

Senator COHEN. Beyond that 1 year, that \$56 million cannot be spent for leasing costs?

Mr. MALONE. That is correct.

Senator COHEN. OK. The District did not use a formal competitive bidding process for this leasing arrangement, is that right?

Mr. MALONE. As I understand it—and the Director of Administrative Services is here—initially, this proposal to examine the space was done through a competitive bid.

Senator COHEN. It was?

Mr. MALONE. It was.

Senator COHEN. OK.

Mr. MALONE. They sent out an advertisement, which was a notice of interest. I am sorry. I stand corrected. They issued a notice of interest—I am sorry—and I think they had a response of 39 proposals, of which I understand three were responsive.

Senator COHEN. I am raising an issue, and I think I know the answer, but I just need to get it for the record. My understanding is the District was not required to use a competitive bidding process because D.C. would occupy only 49.8 percent of the space in both buildings, and if you are under 50 percent, you are not required to go to competitive bidding. If you exclude the stairways, elevators, halls, et cetera, however, then you would actually occupy 86 percent, and 67 percent of the usable office space in the building. So depending upon how you calculate it—you are smiling, Mr. Holloway—but it varies depending upon how you calculate this. I guess that is another issue you will have to resolve at the District level in terms of whether or not the competitive process had to be used. That is something that I cannot resolve, but it is an issue that has been raised.

Mr. MALONE. And I think that the Mayor is very conscious of that, and that matter is being discussed, and I think the Mayor has repeatedly said that he is committed to keeping the time schedule, but at the same time, just like the financing, he is committed to getting the best possible deal for the city.

Senator COHEN. One of the problems is that at a time when the D.C. Financial Control Board is looking to reduce the size of the city employment, we have a situation where the city may be looking at a long-term lease which could cost, if those figures are right, quite a bit of money. The question is why would you look to a long lease at a time when the D.C. Control Board is trying to cut down on the level of employment?

D.C. employees would seem to have to be moved pretty quickly if you are going to move ahead with this project. The question I have is why would you select a building which, according to a 1994 report conducted by an architectural firm based in McLean, Davis and Carter, is an aging building and, I am told, is in need of \$10 million and 10 months of renovation?

Is that something you have looked at?

Mr. MALONE. I personally have not looked at that. I guess from where I sit, I need to have the land and the people relocated so we can keep our commitment to Mr. Pollin. And I think the Mayor is working on that.

Senator COHEN. Is the Council expected to go back into a special session to resolve this issue? My understanding is that no action has been taken, or it has been delayed. What is the status of that?

Mr. MALONE. I think the Mayor is at this point strategically trying to determine what is best, what is going to be most appropriate, and whether in fact that will be necessary. And I think if it is necessary, he will do it; but that has not been determined.

Senator COHEN. Does the Mayor have the authority to simply move the employees into facilities without the consent of the Council?

Mr. MALONE. I believe he is going to have to seek some kind of Council concurrence on this matter.

Senator COHEN. Does the District currently own or lease office space that could take care of these employees on a temporary basis?

Mr. MALONE. At this point, I am advised by our Director of Administrative Services that the answer to your question is no. And Mr. Gaston, who has been handling this matter, is here in the event that you may wish to ask him any questions.

Senator COHEN. If we have to move the employees out of the buildings in order to get this thing underway, and the District does not own facilities now, then the question becomes where are they going to go?

Mr. MALONE. I think, Senator Cohen, we looked at existing Government space early on, and in fact we went to GSA and asked them if they had any space that was available. The problem is that—the reason why those buildings went out of existence, or are no longer functional, is because of the capital cost of bringing them back. In many cases, the capital costs—for example, we looked at old school buildings and some other old facilities, but the capital expense was exorbitant, and therefore it became a non-option for us in this issue, in this matter.

Senator COHEN. As of October 1, any contract or lease which the Mayor proposes to enter into has to be submitted to the D.C. Financial Control Board for prior approval. Any lease agreement for relocating these District employees in order for the project to go forward is probably going to be entered into before October 1; is that a fair statement?

Mr. MALONE. That is correct—I hope so.

Senator COHEN. Since D.C. does not have the facilities for the employees, it is going to have to rent something, right?

Mr. MALONE. That is correct.

Senator COHEN. OK. Would the Mayor propose submitting the lease to the D.C. Control Board? He probably would not be required to do so. If it is entered into before October 1st, the D.C. Control Board does not have to give its approval.

Mr. MALONE. It does not have to, and I do not suspect that it will, given the time frame that we are moving on.

Senator COHEN. When do you think this issue is going to be resolved?

Mr. MALONE. I personally believe it will be resolved by the end of this week.

Ms. BERNARD. I agree with you.

Senator COHEN. That is Friday, right?

Mr. MALONE. I was hoping it would be resolved today, but I think it will be resolved by the end of this week.

Senator COHEN. OK. What studies have been completed about the impact of increased automobile traffic and the need for additional parking in the proposed area? By secondhand information from my staff—and I am not sure I agree with it—there is apparently some assessment that D.C. has the second-worst traffic problem in the United States, second only to L.A. I cannot believe that is possible. You have to go to L.A. to see that that cannot conceivably be possible. It has been estimated that 50 percent of the visi-

tors to the arena will use the Metro. What about the other 50 percent? Where are they going to go?

Mr. MALONE. We had a study that looked at this early on when we initially undertook this process. We recognize that parking and the traffic issue is a challenge, and we are continuing to work through those issues as we move forward.

Senator COHEN. But you do not have a solution to it yet, I guess?

Mr. MALONE. No, we do not. We do not have a solution, but we are working on it. Obviously, one of our concerns is that New York Avenue, coming from that direction, kind of ends.

Senator COHEN. Please take your time to consult with anybody for additional information.

Please come forward, state your name for the record.

Mr. BAILEY. For the record, Senator Cohen, my name is Claude Bailey. I am the Acting Principal Deputy Corporation Counsel for the District of Columbia, and I have been the chief legal advisor on this project.

There have been a number of studies that have been done. The District has undertaken a traffic study in connection with its environmental impact statement, as well as Mr. Pollin has his own independent group, Slade Grove, who have done their own traffic study.

I cannot give you the exact number, but it does indicate that there are, I would say, a minimum of I think it is 5,000 to 10,000 parking spaces within a 5-minute walk of the arena, and it is expected that those spaces would be available to arena patrons when they come to the arena.

Senator COHEN. How many will the arena hold?

Mr. BAILEY. The arena is going to hold 20,500, and it is expected that those parking spaces would be adequate, with the proper traffic management plan, to accommodate the arena patrons.

Senator COHEN. You mentioned before that this property will be tax-exempt, at least for the 30, possibly 40 or 50, years. Is there any value placed on that tax exemption?

Mr. MALONE. It has been so long—

Senator COHEN. Why don't you submit that for the record and get back to me on that.

Mr. MALONE. Yes, we will submit that for the record, Mr. Chairman. One of the things is that the Gallery Place site when it was chosen was a site that I had taken back. I took back 13 sites when I became director that were not generating any revenue, and this one was one of those sites that had not generated any tax revenue at all, which really makes it even more beneficial to the District, because it does not add some tax revenue.

Senator COHEN. If you could just submit a figure for the record later, and try to do it as quickly as possible, because I hope to have this before the full Committee tomorrow.

Mr. MALONE. All right.

Senator COHEN. Ms. Bernard, has the RLA received all the financial information requested from Mr. Pollin and specifically the financial plan required by the agreements that were signed back in March and July? There seems to be some question about this.

Ms. BERNARD. I would quickly defer to Mr. Kerr, who is here.

Mr. MALONE. On what, now?

Ms. BERNARD. Whether or not we have received all the financials in connection with—a commitment letter from his part of the financing, we have not yet received that.

Mr. MALONE. No. We have not received that. We had indications from Mr. Pollin in a meeting that we had with him on Wednesday that they would be prepared to do that on Friday of this week.

Senator COHEN. So you expect to have the financial plan—as I understand it, that was required as of March——

Mr. MALONE. It is; it is a condition.

Senator COHEN [continuing]. And the financial information required in the July agreement has not yet been received?

Mr. MALONE. It has not been received. I think that given the fact that obviously, since that time, Mr. Pollin's financials have changed with the addition of MCI and Ogden Food, they are attempting to work out their financing similar to the manner in which we are trying to work out ours. So we are hoping that, as we have been advised, they will have that before us on this Friday.

Senator COHEN. OK. So Friday is more or less your deadline now?

Mr. MALONE. For receiving their financials.

Senator COHEN. OK. And has the RLA received letters of intent from the banks who are financing Mr. Pollin's share of the cost?

Ms. BERNARD. I believe we have letters of intent with regard to Mr. Pollin's cost—is that correct, Mr. Kerr?

Mr. KERR. Yes. The answer is yes.

Senator COHEN. All right. Now, my understanding is that under the agreement that was signed in March, the District cannot proceed with offers to purchase the non-D.C.-owned land for the project until the financial plan and the letters have been received. Am I incorrect on that?

Mr. MALONE. That is correct.

Senator COHEN. So you cannot proceed with this until you get the plan?

Mr. MALONE. We have started preliminary negotiations. What we cannot do is if in fact we were to start the condemnation proceedings, we could not do that without the financing being in place.

Senator COHEN. Now, the exclusive rights agreement signed on July 17th also provides that the developer is going to provide other information within 30 days or such longer period of time as mutually agreed on. When do you anticipate receiving that letter of agreement on general business terms? Is that going to be Friday?

Ms. BERNARD. Chairman Cohen, we have actually already received the community participation program, the organizational documents, and the preliminary drawings, and we have a deadline of August 16th, and I would expect that we will receive materials prior to that time. The good faith deposit—the letter of agreement on general business terms, we have; it just has not been executed yet. We are still waiting for the affirmative action program as well as the letters of intent and the development schedule for the project. But we expect those any day. The deadline is August 16th, and information is oncoming on a daily basis.

Senator COHEN. So the affirmative action program, you anticipate receiving by August 16th?

Ms. BERNARD. Absolutely.

Senator COHEN. OK. And the agreement requires the submission of the first-source agreement with the D.C. Department of Employment Services—is that pronounced DOES?

Ms. BERNARD. Yes.

Mr. MALONE. Yes, DOES.

Senator COHEN [continuing]. Which provides the developer will use DOES as its first source for the recruitment, referral and placement of persons employed by him to operate the arena; is that correct?

Ms. BERNARD. That is correct.

Senator COHEN. And the memorandum of understanding with the D.C. Minority Business Opportunity Commission, MBOC?

Ms. BERNARD. That is correct.

Senator COHEN. Now, that is going to be received by August 16th as well?

Mr. KERR. Those documents, Mr. Chairman, have been executed by the District of Columbia, more specifically, the Minority Business Opportunity Commission and the Department of Employment Services, and signed by the Pollin organization.

Mr. MALONE. Which we would require of anyone who does an exclusive right agreement; that is standard.

Senator COHEN. But you have that now?

Mr. MALONE. Yes, we have those.

Mr. KERR. Those are in hand.

Senator COHEN. OK. And the developer has to submit its executed organization documents, namely, the corporate charter, the partnership agreement, within 30 days. Have you gotten that yet?

Ms. BERNARD. Yes, we have that already.

Senator COHEN. OK. The agreement stipulates that the developer and the RLA agree to complete the final draft of the land disposition agreement on or before July 31, 1995. Today is August 9th. Do you have it?

Ms. BERNARD. I believe that we have a draft—it is my understanding, at least, that we have a draft of the land disposition agreement, but I do not expect that to be finalized before the end of the month. Mr. Kerr could correct me on that.

Mr. MALONE. That will not be finalized before the end of the month because that will also include the language as it relates to the teams leaving and that kind of thing. So that is part of the transactional documents.

Senator COHEN. Do you have to amend the agreement, because my understanding is that the agreement stipulates the developer and RLA agree to complete the final draft of the land disposition agreement on or before July 31st. You extended that by mutual agreement?

Mr. MALONE. Yes.

Senator COHEN. You have no date in mind as to when the final draft is going to be completed?

Mr. MALONE. Well, it has got to be by the end of this month. The lawyers are already involved in negotiating that agreement. I think both Mr. Pollin and the city recognize it is in the best interest of both parties to move this forward if we are to keep this schedule, so they are as cognizant of it as we are.

Senator COHEN. The agreement provides that RLA is to obtain the appropriate amendments to the Downtown Urban Renewal Plan, street and alley closings, and other approvals as might be necessary for the construction. How about those issues? Have they been resolved?

Mr. KERR. Again—and for the record, I am James E. Kerr—the documents that you just mentioned, the Urban Renewal Plan modification, has to be approved by the National Capital Planning Commission. They have been submitted to the National Capital Planning Commission. The National Capital Planning Commission will act on October 5th as well as on the street and alley closing.

Senator COHEN. Are there any other approvals necessary before construction can begin?

Mr. KERR. The City Council must also act on the two documents that we just mentioned, and that will occur on October 10th.

Senator COHEN. OK. The agreement provides that after the preliminary drawings for the project have been submitted by the developer and approved—that has been done, right, Mr. Malone—

Mr. MALONE. That is correct.

Senator COHEN [continuing.] And the RLA has received a firm commitment letter from a qualified lending institution for construction financing, the RLA will give 30 days public notice and hold a public hearing on the terms and conditions of the lease. Following that hearing, the agreement provides the parties shall execute the land disposition agreement within 30 days of final approval by the RLA board of directors.

When do you anticipate holding the public hearing?

Ms. BERNARD. We are hoping to hold—I am expecting—sometime this month.

Mr. KERR. The public hearing is scheduled to be held October 12th.

Senator COHEN. October 12th?

Mr. KERR. That is correct.

Ms. BERNARD. Oh, you are talking about the land disposition agreement. OK.

Senator COHEN. That is all I have of this panel. I think you have a lot of work to do in a very short period of time—

Mr. MALONE. It has always been that way.

Senator COHEN [continuing.] If you are going to meet the deadline that everyone has indicated is imperative to meet. You will have to follow up on these fairly quickly, I would assume, if this is going to be completed.

Thank you very much.

My very gifted staff has just advised me on how D.C. ranked in the study of roadway congestion among some American cities. It was a Texas A&M study derived from the Federal Highway Administration, and it puts L.A. number one and Washington, D.C. number two. I stand corrected.

Senator COHEN. Ms. Smith, Mr. Ryder, please proceed.

TESTIMONY OF PATRICIA BROOKS SMITH,¹ SENIOR VICE PRESIDENT, NATIONSBANK, ACCOMPANIED BY DAVID RYDER, VICE PRESIDENT, CRESTAR BANK

Ms. SMITH. Good afternoon, Chairman Cohen, members of the Subcommittee, ladies and gentlemen.

My name is Patty Brooks Smith, and I am a senior vice president with NationsBank. I am here today with Dave Ryder of Crestar Bank, who is a vice president there.

It is my pleasure to testify in support of H.R. 2108, particularly as it relates to the financing of the new downtown sports arena. The new center would be located in the Gallery Place area and would revitalize that area by creating new jobs and encouraging the creation of many new businesses to that section of the District.

The majority of the Washington business community were and are very enthusiastic about the arena project. Not only will the arena generate new income for the District and its residents, but it will also be a source of pride for Washington area residents.

In February of 1995, NationsBank and Crestar were approached by officials of the District and asked to consider providing financing for the predevelopment infrastructure costs associated with the arena. NationsBank and Crestar each viewed the new arena as a positive community transaction which would be beneficial to the short and long-term economic health of the District, and determined to work together on a possible financing. After careful and extensive due diligence, both banks issued a joint commitment letter to act as lead lenders for a consortium of local banks to make a \$53 million loan to the District to finance its portion of these costs.

Working with the District, in April, we issued a term sheet outlining the terms and conditions required in order for us to get to a firm commitment. These conditions have been met, and on July 21st, we issued a commitment. Last week, the District executed our commitment letter.

If Congress enacts H.R. 2108, we anticipate closing the loan later this month so that the arena construction can commence on schedule in October of this year.

One of the conditions of the banks to making the loan is passage of the necessary legislation by the City Council as well as the Congress of the United States. Passage of H.R. 2108 by the Senate in the same form as it was passed by the House would satisfy one of our major conditions to closing.

The City Council approved the permanent legislation on July 25th. Passage of H.R. 2108 would make the District's legislation effective immediately, without the usual 30-day legislative layover period.

With regard to H.R. 2108, the legislation before this Subcommittee, this bill essentially achieves the following three major objectives for the bank group. Number one, it authorizes the District to pledge the arena tax for repayment of the loan. As you know, this is the primary source of repayment for this financing.

Number two, the legislation permits expenditure of the arena tax revenues to repay the loan without the Council or the Congress

¹ The prepared statement of Ms. Smith appears on page 64.

first appropriating these revenues. This provision ensures the banks that we will have a secure source of repayment. That is imperative.

Number three, the Act also ensures that the obligation to repay the loan is not a general obligation of the District, does not involve its full faith and credit, and thus does not implicate the calculation of the District's debt limitation.

The banks believe that once the Senate passes and the President signs the 1995 Convention Center and Sports Arena Act and certain other conditions are met, we will be in a position to close the transaction before the end of this month. To date, we have firm commitments from area banks for the entire \$53 million loan needed by the District.

In closing, we remain very enthusiastic about the construction and completion of a new downtown sports arena. As previously indicated, the local bank groups are working together to support this project and are hopeful that it can be both started and completed on time.

Thank you very much for the opportunity to address this matter, and my colleagues and I are available to answer any questions you might have.

Senator COHEN. Thank you very much, Ms. Smith.

Mr. Ryder, do you have a statement?

Mr. RYDER. No, sir, I do not.

Senator COHEN. I just have a few questions.

I take it that you are confident the revenues that are being generated by the arena tax are being properly escrowed in an account separate from that of the District?

Mr. RYDER. We are confident. The escrow is not held by one of the co-agent banks at this point.

Senator COHEN. It is what?

Mr. RYDER. We are confident that the city is escrowing the monies received, but because our commitment has just been signed, that escrow is not being held by one of the co-agent banks currently. It would be, once our deal is closed.

Senator COHEN. What is the lock box arrangement? Could you explain that?

Mr. RYDER. Currently the lock box is held by one of the participants in our bank group, and we would expect it to just continue once our deal is closed.

Senator COHEN. In other words, it stays with that particular bank?

Mr. RYDER. Yes.

Senator COHEN. What entity maintains control of the money? The money is essentially off-budget and is not part of the D.C. general fund. So what entity is in control of allocating the money, and who maintains oversight over it?

Ms. SMITH. I believe that that falls under the Department of Finance and Revenue within the District of Columbia. But our expressed requirements is that those funds are collected, they are put into a lock box, and the account is maintained by the banks, and this would be post-closing. The disbursement of the dollars from that account would be controlled by the bank group.

Senator COHEN. Are you confident that the tax will be able to cover any of the debt repayment schedule that involves a variety of the interest rates or the durations involved?

Ms. SMITH. We are confident that with the \$9 million we anticipate being collected, that the loan would be repaid within the term that we have structured.

Senator COHEN. When you testified before the House D.C. Subcommittee, you indicated the arena tax was "one of the primary sources of repayment." What are the other sources?

Ms. SMITH. A very minor source of repayment would be the assignment of the lease stream under lease between the RLA and Mr. Pollin's company.

Senator COHEN. That is the only other source?

Ms. SMITH. Yes. It is only \$300,000 for the first few years.

Senator COHEN. My understanding is that the banks recently provided the District with a letter of commitment—is that correct?

Mr. RYDER. Yes, sir.

Senator COHEN. And that you will not move forward until such time as Congress takes action on this legislation?

Ms. SMITH. That is correct.

Senator COHEN. Those are all the questions I have of you.

Confirming my statement about traffic congestion, Mr. Clarke apparently will not be able to make it here. I did want to raise the issue of the lease for the housing of the employees who would be displaced. This does not pertain to the banks. If we are talking in the neighborhood of \$48 million, that ought to be of concern certainly to the District because those funds would not be covered under this arrangement the bank has. I assume this would be of concern to the D.C. Control Board and D.C. residents, particularly since the D.C. Control Board is trying to downsize the D.C. Government. Entering into a long-term lease does not seem to be the most appropriate financial way of handling that situation.

I pose that as a question, and if Mr. Clarke or someone else wishes to submit a response for the record, it would be important to have that as quickly as possible. We intend to move this to the full Committee tomorrow. There is a markup set for tomorrow morning, and at that time the Chairman of the Committee has asked me to report this to the Committee for action.

We will include Mr. Clarke's statement in the record.¹

Senator COHEN. With that, I thank all of you for coming. The record will remain open for any statements that need to be received and any questions that have been asked and have not been answered.

Again, I thank all of you for coming. The Subcommittee will stand adjourned.

[Whereupon, at 3:10 p.m., the Subcommittee was adjourned.]

¹ The prepared statement of Mr. Clarke appears on page 68.

A P P E N D I X

Opening Statement for Senator Levin on the D.C. Sports Arena and Convention Center, H.R. 2108 August 9, 1995

Mr. Chairman, the bill before us addresses two projects which many District officials believe are cornerstones to the recovery and revitalization of the District of Columbia. As with any projects of this size and significance, we must be sure that the decision to proceed is based on the most accurate, complete and best available information and analysis. Today's hearing is an effort to achieve that level of confidence to insure that the city and its citizens are getting the best deal possible.

The questions we must be able to answer with assurance with respect to the D.C. Sports Arena are: (1) Have all predevelopment costs associated with planning activities, land acquisition and associated costs, street and alley closings, infrastructure costs, the Metro connection, and regulatory matters been fully accounted for and resolved? (2) Has the financing package been finalized by the Redevelopment Land Agency and are the revenues from the dedicated arena tax adequate to repay the loan/bond issue? (3) Has the District government completed everything required of it to insure that the project will go forward as planned?

The question with respect to the Convention Center are: (1) Is a new convention center needed for the city? (2) Will the dedicated revenue from the increase in hotel and restaurant taxes be enough to cover the expenses associated with the Convention Center?

It is my understanding that these questions have already been answered in other forums, but we in the Senate and particularly this Subcommittee have an obligation to make sure that these questions have been answered to this Committee's satisfaction. I look forward to the testimony.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Oversight of Government
Management and the District of Columbia
Committee on Governmental Affairs
United States Senate

For Release on Delivery
Expected at
2 p.m.
Wednesday,
August 9, 1995

DISTRICT OF COLUMBIA

Status of Sports Arena and
Convention Center Projects

Statement of Gregory M. Holloway
Director, Civil Audits/General Government Division
Accounting and Information Management Division



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of our work that you requested on the proposed new sports arena and convention center projects in the District of Columbia. For the sports arena project, we will discuss the District's predevelopment costs for the project, how those costs will be financed, and what revenues will be generated from a new dedicated tax to finance the costs. For the convention center project, we will discuss what revenues have been generated from new dedicated taxes, where they have been deposited, and how the District plans to use these revenues.

RESULTS IN BRIEF

The District's estimated predevelopment costs for the sports arena project total \$56 million. To finance these costs, the District plans to borrow, through the Redevelopment Land Agency (RLA), up to \$53 million from a syndication of banks headed by NationsBank and Crestar Bank and use an estimated \$9 million in annual revenues from the Arena Tax to repay the loan over 9 years. However, the RLA may refinance the loan later with a tax-exempt bond or a combination of tax-exempt and taxable bonds. On August 8, 1995, RLA issued a request for proposals on the bond financing alternative.

Our analysis indicates that (1) the District has included all predevelopment costs associated with the project that are known and can be estimated at this time and (2) the

Arena Tax should provide sufficient revenue to repay the maximum amount of the loan if the District's key tax projection assumptions are achieved. In addition, if the District is successful in obtaining a federal grant to assist in constructing the Metrorail connection to the arena, the amount it would need to borrow would be reduced by about \$10.8 million.

For the convention center, the District received and deposited \$18.7 million in new taxes dedicated to the Washington Convention Center Authority¹ (Authority) as of August 3, 1995, covering the 8-month period October 1, 1994, to May 31, 1995. The tax collections to date, which have been deposited in an interest-bearing escrow account, are approximately 61 percent of the \$30.8 million projected for fiscal year 1995. Until the Congress amends the District of Columbia's Self-Government and Governmental Reorganization Act (Home Rule Act)² to permit the Authority to use the dedicated tax revenues, the Authority cannot (1) contract for the various studies necessary to better define the project proposal for the new convention center and (2) expend funds for the operation and maintenance of the existing convention center during fiscal year 1995 and future fiscal years until such time that the new convention center is constructed and operating.

¹The Authority was created by the Washington Convention Center Authority Act of 1994, DC Act 10-314, signed by the Mayor on August 2, 1994 (Act 10-314: 41 DCR 5333).

²Public Law 93-198, 87 Stat. 744 (1973).

SCOPE AND METHODOLOGY

In our assessment of the sports arena and convention center projects, we (1) obtained an understanding of the methodology used for the revenue projections of the dedicated taxes associated with these two projects, (2) obtained the documentation for the escrow and lock box accounts to support the taxes collected and deposited as of August 3, 1995, for the convention center project and August 7, 1995, for the sports arena project, respectively, and (3) obtained the documentation supporting the predevelopment costs and the bank financing for the sports arena project available at the time we performed our work.

We met with and obtained information from District officials on the Gallery Place Arena Task Force and other District officials in several District agencies, including the Office of Finance and Revenue, the Office of the Corporation Counsel, the Office of the Executive Secretary, the Redevelopment Land Agency, the D.C Sports Commission, and the Washington Convention Center Authority. We also met with and obtained information from the staff of the Council of the District of Columbia and officials of NationsBank, Crestar Bank, the Washington Metropolitan Area Transit Authority, the D.C. Arena Associates, L.P., the National Capital Development Corporation, the Washington Convention and Visitors Association, and the Hotel Association of Washington, D.C.

We did not audit or review the reported taxes collected and deposited for the sports arena and convention center projects to determine if the District Government accurately calculated and transferred all taxes dedicated to these projects to their respective escrow accounts. Also, we did not audit the historical data or evaluate the assumptions underlying the tax revenue projections. Furthermore, we did not audit the sports arena predevelopment cost estimates or evaluate its proposed financing to determine their reasonableness. Accordingly, we do not express an opinion or any other form of assurance on the taxes collected, the District Government's revenue projections or assumptions, the sports arena's predevelopment cost estimates, or the proposed financing for the sports arena. The information presented in this testimony was prepared for the Subcommittee as it considers H.R. 2108, the District of Columbia Convention Center and Sports Arena Authorization Act of 1995, which was passed by the House of Representatives on August 4, 1995. Events and circumstances may occur after the date of this testimony that may change the sports arena and convention center dedicated tax projections and cost estimates. Our assessment was built on previous work,³ and we conducted new work from May through August 1995 in accordance with generally accepted government auditing standards.

³District of Columbia: Status of Convention Center Project (GAO/AIMD-94-191, Sept. 15, 1994), District of Columbia: Status of Sports Arena Project (GAO/AIMD-94-192, Sept. 15, 1994), District of Columbia: Status of Sports Arena and Convention Center Projects (GAO/T-AIMD-95-189, July 12, 1995), and District of Columbia: Status of Sports Arena Project (GAO/AIMD-95-209R).

SPORTS ARENA PROJECT

Because of the District's financial crisis, the owner of the Washington Bullets and Washington Capitals (franchises) announced on December 28, 1994, that he would build a 20,600 seat, state-of-the-art arena, which the District was originally planning to build, if the District would pay for the predevelopment costs of the project. On March 6, 1995, the owner of the franchises and the Mayor of the District of Columbia signed an exclusive development rights agreement, whereby D.C. Arena Associates, L.P.--a limited partnership established by the owner of the franchises--will build an arena for an estimated \$175 million, and the District will purchase the land and make other infrastructure improvements which are estimated to cost \$56 million. The arena is to be built in the downtown area of the city commonly referred to as Gallery Place.

Under the agreement, D.C. Arena Associates, L.P. will incur all costs associated with the design, development, construction, financing, and operation of the arena; arrange and repay all financing needed for the development, construction, and equipping of the arena and be responsible for all cost overruns and completion delays; sign a 30-year ground lease with the District with the option to extend the lease for two 10-year periods and pay \$300,000 per year to the District with increases of \$200,000 in years 7, 11, 16, 21, 26, and each 5-year interval period of any extension period; and have the Washington Bullets and Washington Capitals play all their home games in the arena for at least 30 years. Regarding arena operations, D.C. Arena Associates, L.P. will have the right to all

revenues generated from rent, title sponsorship, founders suites, suites, club seats, ticket sales, concessions, novelties, advertising, and parking. Also, D.C Arena Associates, L.P. will be responsible for all expenses associated with the project, including repairs and maintenance and all capital infrastructure costs. All tickets and merchandise sales will be subject to District sales tax, but the arena will be exempt from District real estate taxes during the term of the ground lease.

Predevelopment Costs of Project

Under the agreement, the District will incur all costs associated with (1) acquiring land, including the purchase of non-District owned property, (2) connecting the Gallery Place Metrorail Station to the arena, (3) relocating District employees now in a District-owned building and in a leased building located at the Gallery Place site, and (4) demolishing buildings, relocating utilities, and securing all regulatory approvals necessary for construction. As table 1 illustrates, the District's original estimate of \$53 million for this project has been further refined, and it is now \$56.3 million. The estimated cost of land acquisition and the Metrorail connection increased about \$2.1 million and \$6.5 million, respectively, while the estimated costs of (1) relocating District employees and (2) demolishing buildings, relocating utilities, and securing all regulatory approvals decreased by about \$2.5 million and \$2.9 million, respectively. Our analysis of the revised estimate of the predevelopment costs indicates that the District has included all

**Table 1: The District of Columbia's Estimated Predevelopment Costs
for the Sports Arena Project**

Predevelopment costs	Original budget	Revised budget
Land acquisition		
Appraisal/purchase price		\$30,107,913
Appraisal fees		33,500
Total	\$28,000,000	\$30,141,413
Metrorail connection		
Construction costs for station entrance/exit and mezzanine	\$7,000,000	\$13,499,788
Relocation of District employees		
Lease commitments and rent advances		1,985,907
Lease appraisals and space consultants		70,000
Leasehold improvements		972,370
Furniture and equipment move		638,123
Telecommunications equipment move		875,133
Total	\$7,000,000	\$4,541,533
Building demolition, utility relocation, legal and environmental consultants, and bank fees		
Building demolition		1,393,401
Utility relocations		3,439,740
Business relocation		25,000
Legal, environmental and other consultants		1,816,302
D.C Sports Commission reimbursement		294,318
Bank fees and costs		1,161,250
Total	\$11,000,000	\$8,130,011
Total predevelopment costs	\$53,000,000	\$56,312,745

Source: District of Columbia Gallery Place Arena Task Force financial information on the sports arena project.

predevelopment costs associated with the project that are known and can be estimated at this time. Let me address the costs in each of the four major categories.

Land acquisition (\$30.1 million) - The District's Redevelopment Land Agency currently owns the land between 6th, 7th, F, and G Streets which represents most of the land the arena will occupy. In addition, the arena will occupy up to 125 feet of property north of the G Street curb located between 6th and 7th Streets. The District currently owns the land and building at 613 G Street, but it will need to purchase two parcels of land, one of which includes a building. The parcel with the building, which the District is presently leasing is at 605 G Street, and it is owned by the Unification Church. The second parcel is between 7th Street and the 613 G Street property line, and it is owned by Washington Metropolitan Area Transit Authority (WMATA) and Mel Simon, a private developer.

On April 13 and 17, 1995, the two properties were appraised at \$30,107,913 by a D.C. Certified General Real Property Appraiser, who has extensive real estate appraisal experience in the District. The District does not plan to purchase these properties until (1) the Congress has approved the necessary Home Rule amendments for this project, (2) the District has received approval of its financing, and (3) the D.C. Arena Associates, L.P. has submitted a financing plan. If the project goes forward, RLA will tender offers to the owners of the land required for the arena. If the owners do not accept RLA's offer, then RLA plans to take the property through condemnation and the owners

can contest the offer through the courts. The title to the land under the building at 613 G Street, which the District already owns, has already been transferred to RLA.

Metrorail connection (\$13.5 million) - An integral part of this project is the connection of the Gallery Place Metrorail Station to the arena--estimated to cost \$13,499,788.

According to WMATA officials, the estimate is based on the best available data. When the final design plans are completed, they will be able to develop a final cost. The District plans to finance the construction of the Metrorail connection with funds from its bank loan. However, the District has also applied for a \$15 million Capital Assistance Grant under the provisions of the Intermodal Surface Transportation Efficiency Act of 1991⁴ to finance the construction costs of the Metrorail connection. The grant requires a 20 percent local contribution by the District--in this case, \$3 million. If the grant is approved, the District would receive \$12 million from the federal government. The project grant was approved by the WMATA Board of Directors on June 8, 1995 and by the Transportation Planning Board of the Metropolitan Washington Council of Governments on July 19, 1995. It must also be approved by the U.S. Department of Transportation, which according to Transportation Department officials could occur within the next few weeks. If the grant is approved, the District would lower its financing requirements for the sports arena project by about \$10.8 million, which is the difference between the current estimated construction

⁴Public Law 102-240, 105 Stat. 2090 (Dec. 18, 1991) authorizes the Secretary of Transportation to make grants or loans to assist states and local public bodies and agencies to finance the acquisition, construction, reconstruction, and improvement of facilities and equipment for use, by operation or lease, in mass transportation service in urban areas.

costs of \$13.5 million for the Metrorail connection and the District's related \$2.7 million (20 percent of \$13.5 million) contribution under the grant. The District could use the balance of the grant funds and the District's contribution (\$1.2 million federal grant and \$0.3 District contribution) for other transit-related projects.

Relocation of District employees (\$4.5 million) - To assemble the necessary land for the sports arena, the buildings at 605 and 613 G Street must be vacated and demolished. As of August 7, 1995, there were 792 District employees located in these buildings. According to District officials, they plan to move 720 employees into leased space and 72 employees into District-owned space. The District planned to lease 166,586 square feet of space at 941 North Capitol Street, N.E. at \$21 per square foot. However, during the past week, the District has been negotiating to lease space at 801 North Capitol Street, N.E. and 1121 Vermont Avenue, N.W at \$16 to \$20 per square foot. Negotiations are still ongoing, and the District plans to make a final decision shortly. The lease payments for the offices relocated from 605 G Street, which the District was leasing, will be paid with funds from the affected District agency budgets. For those offices relocated from 613 G Street, which the District owned, lease payments will be paid from the sports arena financing for the first year only; thereafter, the affected District agencies are to make the lease payments. On the basis of \$21 per square foot at 941 North Capitol Street, N.E., the District has estimated this cost at \$1,985,097 annually. Also, the District estimates that it will cost \$70,000 for lease appraisals and space consultants and \$972,370 for

leasehold improvements. The District's estimated cost to move furniture and equipment is \$638,123, and the telecommunications relocations are estimated at \$875,133.

Building demolition, utility relocation, legal and environmental consultants, and bank fees

(\$8.1 million) - The District estimates that it will cost \$1,393,401 to demolish the buildings at 605 and 613 G Street. This estimate includes \$505,000 for soil remediation at the site. Relocating utilities, street lights, and traffic signals is projected to cost \$3,439,240. The relocation of telephone facilities is the most expensive component--estimated at \$2,934,240--because the cable duct currently runs down the middle of G Street, and there is not enough room for the duct, the floor of the arena (25 feet below street level), and the Metrorail Red Line (27 feet below street level) to fit in the same location.

The District estimates that legal, environmental, and other consultants associated with the predevelopment phase of the project will cost \$1,816,302. The majority of these costs--an estimated \$1,450,000--are for the preparation of the environmental impact study. The D.C. Sports Commission will be reimbursed \$294,318 for predevelopment costs incurred by contractors of the National Capital Development Corporation (NCDC), which was originally going to own and operate the sports arena, pursuant to an agreement between NCDC and the D.C. Sports Commission. Fees and costs associated with the project's financing with NationsBank and Crestar Bank are estimated at \$1,161,250, with \$861,250 being for the 1.625 percent loan commitment fee (based on a loan amount of \$53 million) and the remaining \$300,000 being for legal costs and due diligence fees.

Financing of Project's Predevelopment Costs

To finance the predevelopment costs for the arena project, the Mayor of the District of Columbia and the Chairperson of the Redevelopment Land Agency signed a commitment letter on August 1, 1995, to borrow up to \$53 million with NationsBank and Crestar Bank. The significant terms and conditions of this loan commitment are as follows:

- **Lenders** - NationsBank and Crestar Bank will provide up to \$30,000,000 and syndicate the remaining \$23,000,000 with other banks. (The \$23 million has been underwritten by 6 other banks.)
- **Borrower** - Redevelopment Land Agency.
- **Amount** - Up to \$53 million term loan with a draw period.
- **Interest rate** - 30-day London Interbank Offered Rate (LIBOR),⁵ plus 200 basis points (2 percent). As of August 8, 1995, the 30-day LIBOR was 5.875, plus 200 basis points. This equates to 7.875 percent.
- **Interest rate protection** - On or before October 31, 1995, unless the loan has been fully refinanced with a tax-exempt alternative financing, RLA must enter into an interest

⁵LIBOR means, as defined by NationsBank and Crestar Bank, for each interest period, the rate at which one-month U.S. Dollar deposits are offered to NationsBank in the London interbank market by leading banks in such market at approximately 11:00 a.m. (London time) two business days prior to the first day of such interest period, as adjusted for Federal Reserve Board requirements and similar assessments, if any, imposed on the banks from time to time.

rate swap,⁶ cap,⁷ collar⁸, or some other agreement acceptable to the banks providing a hedge against any interest rate increase on the loan above 9 percent per annum. If the loan has been partially refinanced with a tax-exempt alternative, RLA must enter into an interest rate protection agreement on that portion of the loan which has not been financed.

- **Repayment term** - Amortized over a period of 9 years.
- **Sources of repayment** - These include all proceeds from the Arena Tax and income from the ground lease with D.C. Arena Associates, L.P. The proceeds of the Arena Tax will be remitted directly to a lockbox and deposited to a cash collateral account maintained by a designated agent. (A lockbox has been established at Signet Bank.)
- **Security** - This includes a perfected pledge and first lien on all proceeds of the Arena Tax and an assignment of the ground lease between the RLA and D.C. Arena Associates, L.P.
- **Loan commitment fee** - An amount equal to 1.625 percent of the loan commitment.
- **Closing costs** - Borrower pays all closing costs.
- **Legal costs** - Capped at \$150,000.

⁶A swap is used to protect a floating liability from adverse movements in interest rates by converting it into a fixed rate. In a swap, two parties agree to exchange periodic interest payment obligations on an agreed principal amount for a specified time period.

⁷A cap is used to provide protection against rising interest rates. A cap enables a borrower to set an upper limit on its floating interest rate expense.

⁸A collar is used to set a cap on rising interest rates and establish a floor below which interest rates may not fall.

- **Due diligence costs** - Non-refundable fee of \$150,000, plus all legal fees incurred by lenders to complete due diligence process.

However, the RLA may refinance the bank loan later with a tax-exempt bond or a combination of tax-exempt and taxable bonds. On August 8, 1995, RLA issued a request for proposals on the bond financing alternative.

For each financing alternative, it is important to understand how debt service costs are affected by the amount borrowed, the interest rates, and the length of amortization periods. In table 2, we show the annual debt service costs if the District borrowed the \$53 million needed for the predevelopment costs of the arena project assuming all principal was drawn down immediately, the interest rate was fixed, and the loan was amortized evenly over the life of the loan from the time of drawdown. While these assumptions are not intended to replicate the conditions of the current financing proposal, these tables do show how annual debt service costs can decrease as the principal of the loan is amortized over longer periods of time. However, extending the amortization period would increase annual debt service costs.

Table 2: Annual Debt Service Costs for a \$53 Million Loan
Dollars in millions

Years to amortize	Fixed interest rate				
	7%	7.5%	8%	8.5%	9%
7	\$9.6	\$9.8	\$9.9	\$10.1	\$10.2
8	8.7	8.8	9.0	9.2	9.3
9	8.0	8.1	8.3	8.4	8.6
10	7.4	7.5	7.7	7.9	8.1
20	4.9	5.1	5.3	5.5	5.7

If the District is approved for the Capital Assistance Grant for the construction of the Metrorail connection to the arena, the amount it would need to borrow would be reduced by about \$10.8 million based on current estimated construction costs of \$13.5 million.

Table 3 illustrates what the annual debt service costs would be if the District borrowed \$42 million using the previously discussed assumptions.

Table 3: Annual Debt Service Costs for a \$42 Million Loan
Dollars in millions

Years to amortize	Fixed interest rate				
	7%	7.5%	8%	8.5%	9%
7	\$7.6	\$7.7	\$7.9	\$8.0	\$8.1
8	6.9	7.0	7.1	7.3	7.4
9	6.3	6.4	6.6	6.7	6.8
10	5.9	6.0	6.1	6.2	6.4
20	3.9	4.1	4.2	4.4	4.5

Debt service costs incurred can be reduced if the loan is repaid early. Over the term of the debt, however, debt service costs are only one of the costs of obtaining financing.

Various other costs such as commitment fees, due diligence costs, and insurance costs would have to be included in order to compare various financing alternatives.

To pay for the loan and other predevelopment costs for the arena project, the District enacted the Arena Tax,⁹ which became effective October 1, 1994. The tax uses the same rate schedule as the one-time Public Safety Fee¹⁰ that was collected in fiscal year 1994. The District collected approximately \$9.5 million in Public Safety Fee taxes from fee payers who are also subject to the Arena Tax. (See table 4.)

Table 4: Collections from 1994 Public Safety Fee

Gross receipt range (dollars)	0 200,000	200,001 500,000	500,001 1,000,000	1,000,001 3,000,000	3,000,001 10,000,000	10,000,001 15,000,000	15,000,001 & greater	Total collected
Fee amount	\$25.00	\$50.00	\$100.00	\$825.00	\$2,500.00	\$5,000.00	\$8,400.00	
Amount paid	493,850	239,167	270,498	2,021,592	3,021,378	938,329	2,492,583	9,477,397
Returns filed	19,779	4,377	2,674	2,483	1,234	188	321	31,056

Note: The amounts represent the non-exempt filers as of June 26, 1995.

On the basis of the Public Safety Fee's 1-year collection history, the current Arena Tax fee structure, and assuming that the number of tax returns filed remains relatively unchanged, the District estimates that the Arena Tax collections should be no less than \$9 million each year. As of August 7, 1995, the District reported that it had collected approximately \$8 million from the Arena Tax which included about 22,000 returns filed. Approximately 12,000 more returns have not yet been filed, and the District's Department

⁹Arena Tax Amendment Act of 1994, D.C. Law 10-189, September 28, 1994. The Arena Tax is a gross receipts tax on all for profit organizations.

¹⁰The Public Safety Fee was a gross receipts tax on all for profit and nonprofit organizations.

of Finance and Revenue plans to send out second notices in mid-August. Using the above assumptions, if the District borrowed (1) \$53 million at fixed interest rates up to 8 percent for 8, 9, 10, or 20 years or up to 9 percent for 9, 10, or 20 years or (2) \$42 million at fixed interest rates up to 9 percent for 7, 8, 9, 10, or 20 years, the Arena Tax collections should be sufficient to cover the loan's annual debt service.

Legislative and Regulatory Approvals

Before construction can begin on the sports arena, a number of legislative and regulatory approvals must be obtained. The process was begun when the D.C City Council passed and the Mayor signed legislation¹¹ on July 25, 1995, amending the Arena Tax Amendment Act of 1994 to (1) permit the use of the tax revenues to finance the acquisition of land, the demolition of buildings, the relocation of District employees, and the reimbursement of District agencies for any predevelopment and development costs associated with the arena project, (2) authorize RLA, or some other District agency, to borrow funds for the arena project and pledge the revenues from the Arena Tax as security for the borrowing of funds, and (3) require the Mayor of the District of Columbia to adjust the rates of the Arena Tax if the annual revenues estimated are less than \$9 million. On that same day, Delegate Norton, and others, introduced H.R. 2108 to amend the Home Rule Act to permit RLA, or some designated authority, to borrow funds for the development and construction of a sports arena and to pledge District revenues as security for the

¹¹Arena Tax Payment and Use Amendment Act of 1995 (Act 11-115).

borrowing of funds, and for other purposes. The legislation was approved by the House Subcommittee on the District of Columbia, Committee on Government Reform and Oversight on July 26, 1995, the full Committee on July 28, 1995, and the House on August 4, 1995. The legislation has been sent to the Senate for action.

In addition, a number of regulatory approvals are necessary. The major ones include approval of (1) the urban renewal plan amendments by the National Capital Planning Commission (NCPC), the D.C. City Council, and RLA, (2) the environmental impact and historical preservation studies by NCPC, (3) the G Street and Alley closing by NCPC and the D.C. City Council, and (4) the ground lease agreement with D.C Arena Associates, L.P. by RLA. All of these regulatory approvals are in various stages, and they are scheduled to be completed by October 12, 1995. In addition, the District must acquire the necessary land, move its employees, and demolish two buildings by October 12th, so that the D.C. Arena Associates, L.P. can break ground for the arena on October 13, 1995.

CONVENTION CENTER PROJECT

In August 1994, when the District enacted legislation creating the Washington Convention Center Authority, it also established new taxes to provide a source of revenue for the Authority. These dedicated taxes, which became effective October 1, 1994, were as follows:

- 2.5 percentage points of the 13 percent hotel sales tax,
- 40 percent of the \$1.50 daily hotel occupancy tax,
- 1 percentage point of the 10 percent restaurant sales and use tax, and
- one-quarter of 1 percent increment of the business franchise surtax.

For the reporting periods October 1, 1994 through May 31, 1995, the District received and deposited \$18.7 million from these taxes in an escrow account at First Union National Bank of Washington in the name of the Washington Convention Center Authority. The funds are in a money market account earning 3.4 percent as of August 3, 1995. The \$18.7 million collected and transferred to date for the above mentioned 8-month period represents approximately 61 percent of the \$30.8 million in projected tax collections for fiscal year 1995.

Beyond collecting the new taxes, the convention center project has for the most part been on hold. Until the Congress amends the Home Rule Act, which is proposed under H.R. 2108, to permit the Authority to use these tax revenues, the Authority cannot contract for the various studies necessary to better define the project proposal for the new convention center. In our September 1994 report, we reported that such studies would need to be completed to better identify the economics of the project. The Authority estimates that it will cost about \$12 million to conduct these studies.

In addition, the Authority is dependent on the tax revenues to operate the existing convention center. With the implementation of the new dedicated taxes on October 1, 1994, the District's fiscal year 1995 budget eliminated the annual transfer of general funds to operate the existing convention center. Unable to use these dedicated revenues, the D.C. City Council authorized the Authority to receive up to \$5.7 million from the District's Rainy Day Fund to operate the current convention center. To date, the Authority has received \$3.2 million, but Authority officials believe that they will need the additional \$2.5 million to cover projected operating costs for the balance of fiscal year 1995. The Authority is required to reimburse the Rainy Day Fund by September 30, 1995.

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This concludes my statement. My colleagues and I will be glad to answer any questions that you or other Members of the Subcommittee may have at this time.

(901676)

TESTIMONY
OF
MERRICK T. MALONE, ESQ.
ASSISTANT CITY ADMINISTRATOR FOR
ECONOMIC DEVELOPMENT
BEFORE THE SENATE SUBCOMMITTEE
ON THE DISTRICT OF COLUMBIA
WEDNESDAY, AUGUST 9, 1995
2:00 p.m.
ROOM 342
DIRKSEN SENATE OFFICE BUILDING

GOOD MORNING, MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE. I AM MERRICK T. MALONE, ESQ. THE ASSISTANT CITY ADMINISTRATOR FOR ECONOMIC DEVELOPMENT AND THE DIRECTOR OF THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT.

I AM HERE IN MY CAPACITY AS THE MAYOR'S CHIEF ECONOMIC DEVELOPMENT OFFICER AND OVERALL COORDINATOR OF PRIVATE AND GOVERNMENT ACTIVITIES RELATED TO THE DOWNTOWN SPORTS ARENA PROJECT.

IT IS A PLEASURE TO APPEAR BEFORE YOU TO DISCUSS TWO OF THE MOST IMPORTANT AND EXCITING PROJECTS IN THE HISTORY OF THE DISTRICT OF COLUMBIA; THE DEVELOPMENT OF THE PROPOSED NEW SPORTS ARENA AND NEW WASHINGTON CONVENTION CENTER.

THESE PROJECTS WILL SERVE AS MAJOR CATALYSTS FOR ECONOMIC DEVELOPMENT FOR THE DISTRICT OF COLUMBIA AND THE REGION BY GENERATING JOBS, ENTREPRENEUR OPPORTUNITIES, RETAIL OPPORTUNITIES, SPORTS AND ENTERTAINMENT VENUES, AND MORE IMPORTANTLY WILL SIGNIFICANTLY ENHANCE THE CITY'S REVENUE BASE.

DESPITE OUR MANY CHALLENGES, WASHINGTON, D.C. IS A STRONG AND VIBRANT CITY WITH A TREMENDOUSLY BRIGHT FUTURE. THE PUBLIC/PRIVATE PARTNERSHIPS WHICH HELPED TO MOVE THESE PROJECTS FORWARD ARE TESTIMONY TO ITS PROSPERITY, ITS ATTRACTIVENESS, AND ITS DIVERSITY. IT IS OUR INTENTION TO MAXIMIZE AND CAPITALIZE ON OUR MANY STRENGTHS.

WASHINGTON, D.C., IS ONE OF THE NATION'S STRONGEST CONSUMER AND BUSINESS MARKETS. IT IS AMONG THE 15 LARGEST METROPOLITAN AREAS IN THE UNITED STATES, D.C. RANKS FIRST IN PER CAPITA INCOME, AND FIRST IN THE PERCENTAGE OF RESIDENTS WITH COLLEGE EDUCATION.

IN THE PAST DECADE, D.C. HAS UNDERGONE AN IMPORTANT CHANGE. OUR CITY IS EVOLVING FROM A ONE-INDUSTRY GOVERNMENT TOWN TO A DIVERSE ECONOMIC CENTER FOR MULTIPLE NEW INDUSTRIES -- INCLUDING HOSPITALITY AND TOURISM, INTERNATIONAL BUSINESS, BUSINESS SERVICES, TELECOMMUNICATIONS, AND INFORMATION SERVICES.

THE DISTRICT OF COLUMBIA ATTRACTS 20 MILLION VISITORS ANNUALLY WHO SPEND NEARLY \$5 BILLION IN LODGING, HOSPITALITY AND BUSINESS RELATED ACTIVITIES.

THE HOSPITALITY AND TOURIST INDUSTRY IS RAPIDLY EXPANDING AND EXCEEDING THE CURRENT CAPACITY OF OUR SUCCESSFUL CONVENTION CENTER. IF THE CITY IS TO REMAIN COMPETITIVE IN THE ATTRACTION OF CONVENTIONS AND MAJOR EVENTS, A NEW AND EXPANDED CONVENTION CENTER IS CRITICAL TO ITS EFFORTS.

THE FAITH AND THE STRENGTH IN THE ECONOMIC VITALITY OF OUR CITY IS AFFIRMATIVELY DEMONSTRATED BY THE COMMITMENT OF MR. ABE POLLIN, OWNER OF OUR WASHINGTON BULLETS AND THE CAPITALS, TO FINANCE AND BUILD A STATE-OF-THE-ART 20,000-SEAT SPORT/ENTERTAINMENT ARENA: THE MCI ARENA AT GALLERY PLACE. THE CITY IS EXTREMELY EXCITED BY THE PARTICIPATION OF MCI, ONE OF THE PREMIERE TELECOMMUNICATIONS COMPANIES IN THE WORLD WHICH IS HEADQUARTERED IN THE DISTRICT OF COLUMBIA. MCI'S PARTICIPATION WILL ALSO ENSURE THAT THE ARENA REMAINS TECHNOLOGICALLY AHEAD OF THE COMPETITION.

SPEAKING ON BEHALF OF MAYOR BARRY AND ALL OF US WHO TREASURE THIS CITY, WE COMMEND MR. POLLIN FOR HIS FAITH, DEDICATION, AND DECISION TO LOCATE IN THE DISTRICT OF COLUMBIA. THIS PROJECT EXEMPLIFIES A TRUE PUBLIC/PRIVATE PARTNERSHIP WHICH WILL PROVIDE SIGNIFICANT ECONOMIC DEVELOPMENT BENEFITS TO OUR CITY.

MR. POLLIN AND MR. BARRY'S COMMITMENTS TO SUPPORT THIS PROJECT, ARE THE CULMINATION AND WORK OF MANY BUSINESS, GOVERNMENT AND CIVIC LEADERS THROUGHOUT OUR CITY WHO HAVE REALLY UNITED TO MAKE THIS EXCITING PROJECT A REALITY.

ON MARCH 6, 1995, MR. POLLIN AND MAYOR BARRY SIGNED AN EXCLUSIVE DEVELOPMENT RIGHTS AGREEMENT WHICH OUTLINES THE KEY ELEMENTS OF THIS TRANSACTION.

UNDER THIS AGREEMENT, THE POLLIN ORGANIZATION WILL FINANCE ALL COSTS ASSOCIATED WITH THE DESIGN, CONSTRUCTION, EQUIPPING, AND OPERATION OF THE ARENA.

THIS INCLUDES ALL INFRASTRUCTURE COSTS WITHIN THE BUILDING'S FOOTPRINT, EXCEPT FOR THE DEMOLITION OF BUILDINGS AT 605 AND 613 G STREET, N.W., AND UTILITY RELOCATION.

IN ADDITION TO PROVIDING A LONG-TERM LEASE ON THE LAND, THE DISTRICT GOVERNMENT AGREES TO PAY FOR DEMOLITION OF THE BUILDINGS, TIE-IN FACILITIES TO THE METRO SYSTEM, ENVIRONMENTAL REMEDIATION, LAND ACQUISITION (FOR TWO PARCELS REQUIRED TO COMPLETE THE FOOTPRINT), RELOCATION OF D.C. EMPLOYEES FROM THE PRESENT BUILDINGS, OFF-SITE INFRASTRUCTURE COST, AND SECURING ALL REGULATORY APPROVALS NECESSARY FOR CONSTRUCTION.

THE POLLIN ORGANIZATION WILL LEASE THE LAND FROM THE REDEVELOPMENT LAND AGENCY FOR A PERIOD OF 30 YEARS, WITH TWO 10-YEAR RENEWAL OPTIONS. THE ARENA WILL BE OWNED BY MR. POLLIN OR HIS SUCCESSORS. THE LEASES WILL BE BINDING ON ANY SUBSEQUENT OWNER OR OWNERS OF THE TEAMS. THE POLLIN ORGANIZATION WILL MANAGE THE ARENA AND BE RESPONSIBLE FOR MAINTENANCE AND REPLACEMENT COSTS.

THE PRICE OF THE DC PARTICIPATION IS ESTIMATED AT \$56 MILLION. WITH WIDE SUPPORT IN THE BUSINESS COMMUNITY, THE DISTRICT OF COLUMBIA COUNCIL PASSED AN ARENA TAX ON FOR-PROFIT BUSINESSES TO FINANCE THE COST OF THE CITY'S COMMITMENT. A FURTHER INDICATION OF THE VIABILITY OF THIS PROJECT IS THAT THE CITY HAS RECEIVED A \$53 MILLION COMMITMENT FROM A CONSORTIUM OF BANKS TO IMMEDIATELY START IMPLEMENTATION SO THAT TIME AS WELL AS MONEY CAN BE SAVED. REPAYMENT OF THESE OBLIGATIONS ARE ASSURED BY AN ESTIMATED \$9 MILLION IN REVENUES TO BE COLLECTED FROM AN ANNUAL ARENA TAX. AN ESCALATOR INCLUDED IN THE COUNCIL LEGISLATION PERMITS UPWARD ADJUSTMENT OF THE ARENA TAX IN THE EVENT THE COLLECTIONS WOULD FAIL TO COVER THE DEBT SERVICE -- WHICH THE CITY DOES NOT EXPECT TO HAPPEN.

H.R. 2108 WOULD PERMIT A DESIGNATED DISTRICT AGENCY OR AUTHORITY TO BORROW FUNDS TO FINANCE DC'S SHARE OF THE DEVELOPMENT AND CONSTRUCTION OF A SPORTS ARENA IN DOWNTOWN WASHINGTON, D.C. THE BILL WILL ALSO ALLOW THE DISTRICT TO PLEDGE CERTAIN DEDICATED REVENUES AS SECURITY FOR THE BORROWING OF SUCH FUNDS.

THE ARENA REQUIRES AND IS SUBJECT TO A SIGNIFICANT REVIEW PROCESS. IT INCLUDES APPROVALS FROM CONGRESS, THE DC COUNCIL, THE NATIONAL CAPITAL PLANNING COMMISSION, THE FINE ARTS COMMISSION, THE CHINATOWN STEERING COMMITTEE, THE HISTORIC PRESERVATION REVIEW BOARD, AND THE ADVISORY COUNCIL ON HISTORIC PRESERVATION. THESE REVIEWS HAVE BEEN DISCUSSED AS BARRIERS, BUT I ASSURE YOU THAT THIS ADMINISTRATION SEES THEM AS STEPPING STONES. WE DO NOT EXPECT TO REACH THE FULL HOPES FOR THIS EXCITING AND FRUITFUL PROJECT WITHOUT THE FULL PARTNERSHIPS OF ALL THESE APPROPRIATE INTERESTS.

IN THE ARENA'S FIRST YEAR, AT LEAST \$115 MILLION IN NEW ECONOMIC ACTIVITY WILL BE GENERATED. USING THE MOST CONSERVATIVE ASSUMPTIONS, WE EXPECT \$8 MILLION IN NEW TAX REVENUE. THIS CALCULATION IS BASED CONSERVATIVELY ON PRESENT ATTENDANCE AT THE USAIR ARENA. AND WE HAVE NOT CALCULATED THE NEW ECONOMIC DEVELOPMENT SPINOFF THAT WILL BE GENERATED IN THE DOWNTOWN CORE AND SURROUNDING NEIGHBORHOODS.

MR. CHAIRMAN, WHILE THE PRIMARY FOCUS OF MY TESTIMONY HAS BEEN ON THE ARENA, I ALSO SPEAK IN STRONG SUPPORT OF THE LANGUAGE THIS COMMITTEE IS CONSIDERING TO INITIATE THE CONSTRUCTION OF OUR PROPOSED NEW CONVENTION CENTER.

AGAIN, OUR BUSINESS AND PUBLIC SECTOR COMMUNITY HAVE JOINED TOGETHER TO ASSIST IN THE EXPANSION AND MAXIMIZATION OF OUR HOSPITALITY AND TOURIST INDUSTRY.

H.R. 2108 WOULD AUTHORIZE THE OBLIGATION AND EXPENDITURE OF REVENUES FOR PRECONSTRUCTION ACTIVITIES ASSOCIATED WITH THE NEW CONVENTION CENTER. THIS WOULD INCLUDE LAND ACQUISITION, CONDUCTING ENVIRONMENTAL IMPACT STUDIES, ARCHITECTURE AND DESIGN STUDIES, AND SURVEYS.

THE ESTIMATED COST OF COMPLETING THE REQUIRED STUDIES AND OTHER PRECONSTRUCTION ACTIVITIES IS APPROXIMATELY \$8.8 TO \$12 MILLION. THIS ESTIMATE INCLUDES \$6.3 TO \$9 MILLION FOR DESIGN AND ENGINEERING, \$1.5 TO \$2 MILLION FOR SPECIAL STUDIES (SUCH AS ENVIRONMENTAL, TRAFFIC, AND TRANSPORTATION), AND \$1 MILLION FOR PROJECT STRUCTURING AND FEASIBILITY WORK.

THE DISTRICT HAS BEEN COLLECTING THE REVENUE ALLOCATED FOR THE CONVENTION CENTER PROJECT AND ANTICIPATING ITS USE FOR PRE-DEVELOPMENT COSTS FOR THE PROJECT. HOWEVER, THE REVENUE CANNOT BE USED WITHOUT THE REQUESTED CONGRESSIONAL AUTHORIZATION.

THEREFORE, WE ASK THIS COMMITTEE'S FAVORABLE AND EXPEDITIOUS CONSIDERATION OF H.R. 2108. THESE ARE WELL DEVELOPED AND BROADLY SUPPORTED PROJECTS WHICH BRING SIGNIFICANT BENEFIT TO AMERICA'S CAPITAL CITY AND THE ENTIRE REGION. THE PROJECTS REPRESENT A COLLABORATION OF PRIVATE AND PUBLIC RESOURCES TO ACHIEVE ECONOMIC DEVELOPMENT.

WE WELCOME YOUR SCRUTINY AND REQUEST YOUR SUPPORT OF THIS LEGISLATIVE PROPOSAL. THE TIMELY AND ENTHUSIASTIC PASSAGE OF THIS BILL BY THIS COMMITTEE AND THE CONGRESS WILL BE A MAJOR STEP IN THE REVITALIZATION AND RESURGENCE OF OUR CITY.

THANK YOU.

**TESTIMONY OF MICHELLE D. BERNARD, CHAIRPERSON
OF
THE DISTRICT OF COLUMBIA REDEVELOPMENT LAND AGENCY
BEFORE
THE UNITED STATES SENATE COMMITTEE ON GOVERNMENTAL
AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT AND THE DISTRICT OF COLUMBIA
SENATOR WILLIAM S. COHEN, CHAIRMAN
SENATOR CARL LEVIN, RANKING MINORITY MEMBER
HEARING ON H.R. 2108, "THE DISTRICT OF COLUMBIA
CONVENTION CENTER AND SPORTS ARENA AUTHORIZATION ACT
OF 1995"
WEDNESDAY, AUGUST 9, 1995**

Chairman Cohen, Senator Levin, members of the subcommittee and staff, my name is Michelle D. Bernard. I am Chairperson of the District of Columbia Redevelopment Land Agency ("RLA"), an instrumentality of the District of Columbia government. The RLA is, among other things, the District's financial agent for the new sports arena and will lease land owned by the RLA to D.C. Arena Associates, L.P. ("DC Arena LP"), a District limited partnership formed and controlled by Abe Pollin. Mr. Pollin is the owner of the two sports franchises that will utilize the arena.

As Chairperson of the RLA, I am pleased to appear before you today to testify in support of H.R. 2108, the "District of Columbia Convention Center and Sports Arena Authorization Act of 1995." The arena project will be the bedrock of the economic revitalization of one of the District's many urban renewal areas in the 21st century. As a citizen of the District of Columbia and as Chairperson of the RLA Board, I truly believe in this project and am personally, fully committed to the development of the arena.

In late 1994, the RLA considered and selected an unsolicited proposal from the National Capital Development Corporation ("NCDC") for development of approximately 120,838 square feet of land owned by the RLA (the "Gallery Place site") as a sports and entertainment facility. NCDC was formed to assist in the development, ownership and operation of a sports and entertainment facility in the District of Columbia. NCDC has negotiated with Abe Pollin and various government agencies in an attempt to facilitate the development of the project.

In this regard, I am pleased to announce that on July 17, 1995, the RLA Board and NCDC executed an "Exclusive Rights Agreement" ("ERA"). The ERA sets forth the basic

business terms, conditions, processes and formulas regarding the lease of the land by the RLA to DC Arena LP and establishes a timetable that allows Mr. Pollin to break-ground in mid-October 1995. Also, on July 20, 1995, the RLA Board approved a resolution allowing NCDC to assign its rights and liabilities to DC Arena LP for the purpose of building a sports and entertainment facility at the Gallery Place site. It is my understanding from RLA staff that the Assignment Agreement between NCDC and DC Arena LP was executed on or about August 1, 1995.

A. THE RLA'S MANAGEMENT PLAN

As I stated earlier, on July 17, 1995, the ERA was executed by the parties. Thus, our process and the time line to be met require the submission of a proposed land disposition agreement ("LDA") to the RLA Board and the following actions by DC Arena LP on or before Wednesday, August 16, 1995:

1. DC Arena LP must provide the Board with a good faith deposit of \$200,000;
2. DC Arena LP must execute a "Letter of Agreement on General Business Terms" with the RLA Board;
3. DC Arena LP must submit an affirmative action program to the RLA Board;
4. DC Arena LP must submit to the RLA Board, letters of intent or commitment from a qualified lending institution(s) indicating its willingness to provide funds sufficient for construction financing; and
5. DC Arena LP must submit to the RLA Board, a development schedule for the project including the design period and a phasing schedule.¹

¹ It is my understanding from RLA staff that pursuant to the terms of the ERA, NCDC/DC Arena LP has already submitted (a) a community participation program, (b) its

After receipt of the above, RLA staff members will review DC Arena LP's responses to the above to ensure that all of the requirements of the ERA have been met. Shortly thereafter, RLA staff will make an informal certification to the members of the Board that DC Arena LP has conformed with all of the above-referenced requirements.

Immediately following approval of the above by the RLA Board and submission to the Board of a firm commitment letter for Mr. Pollin's financing for his share of the arena project, the Board will give 30 days notice and hold a public hearing (October 16, 1995) on the terms and conditions of the proposed final LDA. Within 30 days (November 16, 1995) of final approval of the LDA by the RLA Board (following the public hearing), the parties will execute a final LDA.

As an aside, I would note that it is my opinion and I believe that the RLA Board will concur, with appropriate action, that Mr. Pollin, on behalf of the Centre Group, L.P., Washington Hockey L.P., and the Capital Bullets Basketball Club, Inc., also execute the final LDA. This would legally protect the District's future interests since to date, the majority of the legal agreements executed have been between NCDC and the District government itself.

B. THE FINANCING OF THE DISTRICT'S SITE DEVELOPMENT, ACQUISITION AND RELATED COSTS

In connection with the financing of the District's site acquisition and development costs, I am pleased to announce that the Board, working in partnership with a consortium of local banks headed by Crestar Bank, N.A. and NationsBank, N.A., has agreed upon a

organizational documents; and (c) preliminary drawings.

financing package that we believe is the most economically sound transaction for the District. As I will discuss further, this package makes the most economic sense for the District and can be funded in time to meet our development schedule.

Until recently, there were two proposals before the Board for consideration as the mechanism by which the RLA finance its site acquisition and development costs related to the arena project. The most significant factors distinguishing the proposals was that one proposal was a bank loan with a floating 30 day interest rate tied to LIBOR (the "variable rate proposal"). The other proposal was a combination taxable issue/tax-exempt bond issue with a blended fixed interest rate of 7.12% (the "fixed rate proposal").

Initially, several concerns were expressed in connection with the variable rate proposal. Two of those concerns were as follows:

- * The repayment of the loan required that the annual debt service amount equal the greater proceeds of the arena tax and land lease or the amount required to fully amortize the loan within the term which would be determined during the due diligence period (a period not to exceed 7 to 10 years). Such a short term repayment of the loan would require a debt service that was equal to or could exceed the anticipated arena tax; and
- * The floating rate adjusted every day 30 days with the interest rate being 200 basis points above that rate. Additionally, the proposal required that the RLA obtain an interest rate cap, swap or collar to limit the effective interest rate to 9% per annum. At today's market levels, an interest rate cap to limit the RLA's effective loan rate to a maximum of 9% would require an additional up front payment of \$1,118,300 to \$1,590,000.

In comparison, under the fixed rate proposal,

- * No derivative instruments such as swaps, caps or collars were needed or proposed;
- * The scheduled annual debt service would be \$5,380,000 rather than \$9,000,000. Thus, there would be ample room for arena tax revenues to fluctuate without causing any default. As a consequence, the risk of the District of having to escalate the arena tax rate was much lower;

* There was some room to issue additional debt in the event of cost over-runs; and

* The total interest expense after expected redemptions was \$16,426,700 and the RLA could use all surplus revenues to start prepaying bond principal as early as next year. In fact, assuming arena tax revenues remained at \$9,000,000, the taxable bonds would be completely paid off during the year 2000 and the tax-exempt debt paid off in 2002. Thus, the arena tax could be eliminated in 7 rather than 9 years.

Given the Board's concerns with the variable rate proposal and the benefits of a fixed rate transaction, it was the general consensus of the Board that fixed rate financing is the most economically sound for the District. However, the Board was also faced with the immediate need to fund the costs of acquiring additional land, obtaining title on the entire envelope on the project, and beginning certain demolition and infrastructure improvements on or about August 16, 1995. A bond transaction could not be closed in such a short period of time. Thus, on July 20, 1995, the Board voted to : (1) obtain interim financing from the banks under the condition that the RLA not be subjected to any prepayment penalty whatsoever and that the banks forbear on requiring that the RLA hedge its interest rate exposure until October 31, 1995; and (2) pursue bond financing with the objective of closing any bond deal by mid-October 1995 and utilizing the proceeds of the transaction to immediately re-pay the bank loan.

On Tuesday, August 1, 1995, the RLA Board, the banks, and the District of Columbia government executed the bank loan. Under the terms of the loan, the RLA is borrowing funds with a floating 30 day interest rate tied to LIBOR plus 200 basis points and is not required to hedge its interest rate exposure until October 31, 1995, thereby leaving ample room to close a fixed-rate bond transaction.

In connection with pursuing a bond transaction, on Monday, August 7, 1995, the RLA issued a Request for Proposals for Underwriting and Investment Banking Services ("RFP"). Under the terms of the RFP, the financing timetable is as follows:

DATE	ACTION
August 14, 1995	Responses to RFP due from underwriters
August 18, 1995	Kickoff meeting
August 28, 1995	First draft of bond documents; send to rating agencies
August 31, 1995	Comments due on first draft of bond documents; send to rating agencies and credit providers
September 6, 1996	Send second draft of bond documents; send to rating agencies and credit providers
September 11, 1995	Comments due on second draft of bond documents
September 15, 1995	Document session to finalize bond documents
September 19, 1995	Receive ratings and credit commitment;
September 27, 1995	Pricing
September 28, 1995	Sign BPA
October 10, 1995	Pre-Close
October 11, 1995	Close and deliver bonds.

CONCLUSION

In conclusion, the RLA Board, District elected officials and our partners in the private sector are continuing to work extraordinarily hard on this project and have developed a financing transaction that is in the best interests of the District and its citizenry.

I thank you for your invitation to testify before you today and welcome your questions.

**TESTIMONY
OF
NATIONS BANK, N.A.
AND
CRESTAR BANK, N.A.
BEFORE THE
SENATE SUBCOMMITTEE
ON GOVERNMENT MANAGEMENT AND THE
DISTRICT OF COLUMBIA**

Good afternoon Chairman Cohen, members of the subcommittee, ladies and gentlemen. My name is Patricia Brooks Smith. I am a Senior Vice President at NationsBank, N.A. I am here today with my colleague David Ryder, a Vice President at Crestar Bank, N.A. It is our pleasure to testify in support of House Bill No. 2108, the "District of Columbia Convention Center and Sports Arena Authorization Act of 1995."

We are pleased to be here this afternoon to speak to the importance of the passage of House Bill No. 2108 as it relates to the financing of a new downtown Sports Arena in the District of Columbia.

As you know, the District has experienced financial difficulties over the past several years and in January of 1995, the District's credit rating was downgraded to a non-investment grade status. About this same time, it became clear that the District had a unique and positive opportunity to attract a new sports arena and entertainment complex to downtown Washington that would be home to the Washington Bullets and Washington Capitals sports franchises. The new center would be located in the Gallery Place area and could revitalize that area by creating new jobs and encouraging the creation of many new businesses to that section of the District. The majority of the Washington business community, were and are very enthusiastic about the Arena Project. Not only will the Arena Project generate new income for the District and its residents, it also will be a source of pride for Washington area residents.

In December 1994, after a competitive review process by the Redevelopment Land Agency, the District and the Pollin organization entered into an agreement whereby the Pollin organization agreed to finance the costs of the arena structure, and the District agreed to provide the Pollin organization with the Gallery Place site (the "Site"), in a condition that would allow construction to begin no later than October, 1995.

In order to provide the Site, however, the District must relocate employees currently housed in buildings on the Site, acquire additional parcels of land, demolish buildings, relocate some utilities, complete any necessary environmental remediation as well as construct a new Metro entrance into the Arena, and pay for certain other pre-development costs.

In February of 1995 NationsBank and Crestar were approached by officials of the District and asked to consider providing financing for the pre-development infrastructure costs to be borne by the District. NationsBank and Crestar each viewed the new Arena as a positive community transaction which was beneficial to the short and long term economic health of the District and determined to work together on a possible financing. After careful and exhaustive due diligence, Crestar and NationsBank have issued a commitment to act as lead lenders for a consortium of local banks to make a \$53 million loan to the

District to finance the District's portion of the costs of the Arena Project. Working with the District, in April we issued a term sheet outlining the terms and conditions required to be met in order for us to make a firm commitment. Those conditions were met and on July 21, 1995, we issued a commitment. Last week the District executed our letter of commitment. If Congress enacts H.R. 2108, we anticipate closing the loan later this month so that Arena construction can commence on schedule in October of this year.

One of the conditions of the banks to making the loan is the passage of necessary legislation by the Council of the District of Columbia and the Congress of the United States. Passage of H.R. 2108 by the Senate in the same form it was passed by the House would satisfy one of our conditions.

The Council enacted legislation in July of 1994 which imposed a tax, the Arena Tax, on District businesses. That legislation provides that the revenues from the Arena tax may be pledged to repay the Loan. In May, 1995, the Council amended that legislation on an emergency basis to require that the Arena Tax be reviewed annually and adjusted, if necessary, to a level to ensure that the Arena Tax revenues are sufficient to repay the Loan. The Council approved the permanent legislation on July 25. Passage of H.R. 2108 would make the District's legislation effective immediately without the usual 30 legislative day lay over period.

Now, turning to H.R. 2108, the legislation before this subcommittee. This bill essentially achieves the following objectives:

- It authorizes the District to pledge the Arena Tax to repayment of the Loan. The reason this is so important to the Banks is that the primary security for the repayment of the Loan is the revenue collected from the Arena tax.
- The legislation permits the expenditure of the Arena Tax revenues to repay the Loan without the Council or the Congress first appropriating those revenues. This provision ensures the Banks that we will have a secure source of repayment for the Loan each year, and that this source of repayment will not be subject to the annual budgetary process.
- The Act also ensures that the obligation to repay the Loan is not a general obligation of the District, does not involve the full faith and credit of the District,

and thus does not implicate the calculation of the District's debt limitation.

The Banks believe that once the Senate passes and the President signs the 1995 Convention Center and Sports Arena Act and certain other conditions are met, we will be in a position to close the transaction before the end of August. To date, we have firm commitments from area banks for the entire \$53 million loan needed by the District.

In closing, we remain enthusiastic about the construction and completion of a new downtown Sports Arena. As previously indicated, the local banks are working together to support this project and are hopeful that it can be started and completed on time.

Passage of House Bill No. 2108 is extremely crucial to the success of this project and the support of the Senate is urgently needed.

In conclusion, we urge this subcommittee to support and the full Senate to act favorably and promptly on House Bill No. 2108. Thank you for the opportunity to address this matter. My colleagues and I would be happy to answer any questions you might have.

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TESTIMONY OF
D.C. COUNCIL CHAIRMAN DAVID A. CLARKE
BEFORE THE SENATE SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT AND THE DISTRICT OF COLUMBIA
ON THE DISTRICT OF COLUMBIA CONVENTION CENTER AND
SPORTS ARENA AUTHORIZATION ACT OF 1995 (H.R. 2108)

SENATOR WILLIAM S. COHEN, CHAIR

WEDNESDAY, AUGUST 9, 1995

2:00 p.m.

Room 342 of the Dirksen Senate Office Building

Good morning, Chairman Cohen, Senator Levin, and other members of the Senate Subcommittee on Oversight of Government Management and the District of Columbia. Thank you for inviting me to testify today on the proposed amendments to the city's charter that will authorize the issuance of revenue bonds for the financing of the arena and convention center.

Pursuant to the city's charter, the Council may by act authorize the issuance of revenue bonds to finance undertakings in various areas such as the following: housing, facilities for health, transit, utilities, recreation, industrial and commercial development, and other.

Last year the Council passed a resolution requesting that

Congress amend the city's charter to permit the Council to authorize the issuance of revenue bonds for special projects.

While somewhat generic in character, the resolution did make mention by way of "including - (but) - not - (limited) - to" language, three specific projects -- the arena, a convention center, and a parking authority.

Legislation creating the Washington Convention Center Authority ("Authority") as an independent corporate body was passed by the Council last year. The legislation directs the city to delegate its authority to issue revenue bonds backed with dedicated tax revenues to the Washington Convention Center Authority for purposes of constructing a larger convention center. The revenue bonds are a crucial part of the financing mechanism that is necessary for the construction of a new

convention center.

The Arena Project, like the Convention Center project, was authorized by the Council last year and is critical to the economic revitalization of downtown and the District as a whole.

In order to finance the District's predevelopment costs associated with the development of a new sports and entertainment complex at Gallery Place, a Home Rule Act amendment is necessary to permit the Redevelopment Land Agency, or such other Mayorally-designated agency, to dedicate this tax as security for borrowing or other financing to obtain the necessary funds -- estimated by the Mayor to be approximately \$53 million.

Although the arena tax law has been in place for one year, amendments were recently adopted, and are already in effect on an emergency basis, to: (1) clarify the purposes and use of the tax; (2) clearly authorize the RLA or such other Mayorally-designated agency to pledge the tax as security to finance the District's predevelopment costs; and (3) provide for an "escalator clause" -- similar to a provision existent in the Convention Center legislation -- to ensure that the arena tax revenues do not fall below \$9 million a year. These amendments were passed by the Council on July 25, 1995 at an additional legislative session.

According to testimony provided by the Department of Finance and Revenue at a public hearing on the arena tax amendments which I chaired on June 30th, it is estimated that

the arena tax will generate \$9.5 million this year. That number is based on the actual amount of revenue which the District has collected from the same base of taxpayers from the 1994 public safety fee, on which the arena tax was modelled. As you may know, the arena tax is a tax on all businesses operating in the District, and ranges from \$25 annually to \$8,400 annually based upon the gross receipts of a business. Nearly two-thirds of all arena taxpayers are paying the \$25 level, while only 1% of taxpayers are being taxed at each of two highest levels (\$5,000 and \$8,400).

You should know that -- like the Convention Center Project with its associated taxes needed to finance the project -- the Arena Project and its related taxes were essentially brought to the city by the District's business leadership, particularly the

Federal City Council, the D.C. Chamber of Commerce and the Greater Washington Board of Trade. The business community continues to strongly support the project, along with the taxes needed to pay for the District's costs, because they, like most of the city's elected leadership and citizenry, see the significant benefits which will ultimately result from providing an in-town venue for two professional sports teams and over a hundred other cultural attractions each year.

The economic benefits include: the creation of approximately 400 construction jobs and 560 new permanent jobs as a result of the arena operation; the generation of approximately \$385 million in additional tax and rent revenues as a direct result of the arena over a 30 year life; the generation of \$8 million in tax revenues as a direct result of the arena in its

first year of operation; and the attraction of a projected \$115 million annually in private spin-off investment in the economy of both the District and the region. In addition to these positive economic impacts, the downtown arena will also provide those who live, work and visit our city with the intangible but significant benefit of having something and somewhere in the heart of downtown where we can all go and have something to cheer for and be entertained. From this perspective, the arena provides a multi-million dollar vote of private and public confidence in the future life and vitality of our city, which will help serve to reinvigorate the District's traditional position as the economic and cultural core of the region.

Thank you again for allowing me to testify here this afternoon, and I am available to answer any questions that you may have.

**DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY
AND MANAGEMENT ASSISTANCE AUTHORITY**

**STATEMENT FOR THE RECORD
OF THE CHAIRMAN**

Dr Andrew F. Brimmer

Before The

**Subcommittee on Oversight of Government Management
and the District of Columbia
Committee on Governmental Affairs
United States Senate
Washington, D.C**

August 9, 1995

Mr. Chairman and Members of the Subcommittee:

This statement for the record provides our comments on the District's proposal to build a new 20,600 seat Sports Arena in the downtown area of the city at Gallery Place. D.C. Arena Associates, L.P., a limited partnership established by the owner of the Washington Bullets and Washington Capitals, plans to build an arena for an estimated \$175 million. The District's contribution includes financing \$56 million for predevelopment costs including: \$30 million for land acquisition, \$13.5 million for a Metro connection, \$4.5 million to relocate employees from buildings which must be demolished to make room for the arena, and \$8 million for various other costs. The District plans to finance the predevelopment costs using a new gross receipts tax, which is expected to raise approximately \$9 million annually.

The Authority has received a briefing from the Chairman of the Redevelopment Land Agency and other District officials on the status of the proposal to build a downtown Sports Arena and has reviewed GAO products that have reviewed aspects of the proposal and financing. Based on this information the Authority supports the efforts to begin construction of this facility as soon as possible. We believe that the new Arena may not only prove to be an economic benefit to the District, but also provide a valuable impetus for further development of the "Downtown" area.

One of the primary goals of the Financial Responsibility and Management Assistance Act of 1995 (P.L. 104-8) is "To ensure the long-term financial, fiscal, and economic vitality and operational efficiency of the District of Columbia." Although improving the operations of the District government is an integral part of achieving operational efficiency, expansion of the private sector is essential to long-term economic development. The Arena project, which combines private development with government incentives, is a strong step to revitalizing private sector development in the District. In addition, the plans for financing the Arena appear to be reasonable.

The House Government Operations Committee report that accompanied P.L. 104-8 noted this Committee's support for the Arena project. We agree with the House Government Operations Committee that the Arena Project should be completed at the earliest possible date.

We appreciate the opportunity to provide comments on this proposed project

GOVERNMENT OF THE DISTRICT OF COLUMBIA



OFFICE OF
ECONOMIC DEVELOPMENT

441 4th ST. N.E. Room 317
WASHINGTON, D.C. 20002

AUG 10 1995

The Honorable William S. Cohen
Chairman
U.S. Senate Subcommittee on
Oversight of Government Management
and the District of Columbia
Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Cohen:

Enclosed, please find responses to issues asked during the August 9, 1995, hearing on H.R. 2108, the "District of Columbia Convention Center and Sports Arena Authorization Act of 1995."

If we can further assist you in your deliberations on H.R. 2108, do not hesitate to contact me or Beatrix Fields, Legislative Officer, on 535-1970 or 535-1986, respectively. We anxiously await the mark-up of H.R. 2108.

Sincerely,

Merrick T. Malone, Esq.
Assistant City Administrator
for Economic Development/
Director, DHCD

Economic Benefit of Leasing Gallery Place Site for Arena Development

The projected tax revenue of \$10,100,000 per year, when added to lease payments of \$300,000 per year further enhanced by a \$200,000 increase every five years over the thirty year initial lease term, will provide the District with substantial income. The Gallery Place site has been fallow for more than 19 years awaiting the possibility of the building of a mixed-use development (office, hotel and housing) to stimulate economic development in the Chinatown area.

The development of an Arena at the Gallery Place Site is estimated to generate construction activity benefits amounting to \$167 million in sales volume and \$19.4 million in increased income for D.C. residents. More than 600 full and part-time jobs are projected during the operation of the arena.

Traffic and Parking Systems

Traffic analysis have been conducted for the Gallery Place Study Area by Barton-Aschman, Traffic Consultants, and their study shows that the street system is adequate to handle traffic generated by the Arena events. A traffic transportation and parking study by consultants for the developer, D.C. Arena L.P., shows that there are approximately 11,000 parking spaces within a ten minute walk of the proposed Arena. When linked to the projected 8,000 arena event ridership on the metrorail system, the anticipated pedestrian and automotive traffic volume can be fully accommodate.

D.C. PRESERVATION LEAGUE



1511 K Street, N.W.
 Suite 739
 Washington, D.C. 20005
 202-737-1519
 Fax: 202-737-1823

August 9, 1995

Senator William Cohen, Chair
 Subcommittee on Oversight & Management of D.C.
 Committee on Governmental Affairs
 United States Senate (Hart 332)
 Washington, D.C. 20510

by fax 202-224-2693

Dear Senator Cohen,

The D.C. Preservation League would like to state its dismay at the fact that there was no opportunity for citizen testimony at yesterday's hearing on HR 2108, the D.C. Convention Center and Sports Arena Authorization Act. As I understand it, there was representation for the developer, the D.C. Government, and the Federal Government, but citizens will only be allowed to submit their comments in writing. The League, therefore, is submitting this statement.

We believe that the arena is being proposed in the wrong location. Although this is a very complex issue - one that, unfortunately, is being oversimplified by Washington's major newspaper, by Congress, and by others who are promoting the project - I will attempt to simplify our position which is based on the following facts regarding the Gallery Place site:

1. It necessitates the closing of the 600 block of G Street, N.W., a major street in the historically significant L'Enfant Plan. According to the Mayor's Task Force on the Arena, "...due to the direct and adverse impact on the L'Enfant Plan caused by the closing of G Street, there are few recommendations that can mitigate or ameliorate this action short of selecting an alternative site or re-examining the arena program to accommodate a reduced arena bowl on a single square, allowing the G Street right-of-way to remain unobstructed."

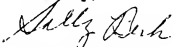
The mission of the D.C. Preservation League is to preserve, protect and enhance the historic and built environment of Washington, D.C. through advocacy and education.

page 2: hearing on the proposed sports arena by
Oversight of Gov't. Management & D.C.

2. It will have a negative impact on five National Historic Landmarks: the White House, the Treasury, the Old Patent Office Building, the General Post Office, and the Pension Building.
3. It will have a negative impact on 17 designated or potentially eligible landmarks within the immediate area of impact.
4. It will have a negative impact on 71 designated or potentially eligible landmarks within the expanded area of impact.
5. It is incompatible with more than a dozen elements of the D.C. Comprehensive Plan, including:
 - a. provisions for housing, the primary ingredient of an economically viable downtown.
 - b. the protection and enhancement of Chinatown, Downtown's only ethnic cultural area.
6. It is too small, causing a plethora of problems which include, but are not confined to, traffic congestion, insufficient pedestrian milling space, insufficient width of sidewalk to accommodate vendors, developmental pressure on the small-scale buildings in the vicinity.
7. It has yet to be evaluated within the framework of a full accounting of the true costs to the city. The costs, have, unfortunately, been based on an unrealistically small area of impact.
8. The profitability to the city has yet to be demonstrated. (Refer to the report by the D.C. City Council Committee on Economic Affairs chaired by Charlene Drew Jarvis, dated February 13, 1995.)
9. It has not been planned within a framework which might insure the economic spin-off being prophesied by those who advocate the site.

If you would like to discuss this further, I can be reached at the above number or at 202-783-7546.

Sincerely,



Sally Berk
President

CPC/Citizens Planning Coalition

640 8th Street NE, Washington DC 20002, 544-2483

RESOLUTION

BE IT RESOLVED THAT THE CITIZENS PLANNING COALITION OPPOSES THE BUILDING OF AN ARENA AT GALLERY PLACE AND URGES THAT ALTERNATIVE SITES BE EXAMINED USING BASIC PLANNING PRINCIPLES AND THAT THE GENERAL ACCOUNTING OFFICE EXAMINE ALL FINANCIAL VARIABLES IN RELATION TO THESE SITES, FOR THE FOLLOWING REASONS:

1) THE GALLERY PLACE SITE WAS NOT CHOSEN THROUGH AN ORDERLY OR PUBLIC PLANNING PROCESS AND CONSEQUENTLY DOES NOT REFLECT SOUND PLANNING PRINCIPLES.

. The Gallery Place site forms the heart of the Downtown Development District (DDD) and was designated by the City Council, after an open deliberative process, for mixed-use development including residential, office, and commercial uses. As the largest parcel of publicly owned land in the area, it holds the possibility for stimulating implementation of the DDD concept on Seventh Street between E Street and Mount Vernon Square in accordance with the city's adopted Comprehensive Plan.

. The proposal for an arena at Gallery Place was not derived from the comprehensive planning process, but from a private deal negotiated with a local sports entrepreneur by the Federal City Council, a group representing business interests who own land and parking lots around the Gallery Place site.

. The site is too small to accommodate the 23,000-seat arena originally promoted by the Federal City Council and the DC government.

. The proposed arena lacks

- . an appropriate number of dedicated on-site parking spaces for general public use,
- . direct access to a high-capacity highway, and
- . seating space to accommodate major basketball tournaments such as NCAA's and ACC's.

. The arrival and departure of 20,000 people at once, many of whom would be driving, would create a level of nightly traffic and competition for parking spaces that would threaten the viability of downtown restaurants, theaters, nightclubs, and evening museum activities.

. This would in turn threaten the nascent revitalization of the area and the continued viability of Chinatown, given that lack of off-street parking is already a major concern for that community. In addition, such a facility and its attendant crowds, cars, trucks, and tractor trailers would drive away potential tax-paying residents who might otherwise be interested in living in an in-town cultural enclave located between the White House and the Capitol.

2) THE ARENA WOULD HAVE AN ADVERSE IMPACT ON HISTORIC RESOURCES OF LOCAL, NATIONAL, AND INTERNATIONAL SIGNIFICANCE IN THE AREA.

. The arena would obliterate an entire block-long segment of G Street, thereby further damaging the L'Enfant Plan, one of our nation's unique contributions to world culture. G Street is an essential element of the L'Enfant Plan as it provides the powerful visual link between the White House and Union Station. The arena would create a massive physical barrier in this historic view shed and would constitute an irrational intrusion in this great Baroque city plan.

. The overpowering scale of the arena would dwarf the adjacent Patent Office and the General Post Office, both of which are National Historic Landmarks. These two mid-19th century buildings are among Washington's earliest and most significant, and were designed by the most prominent architects of the period. The buildings, which face each other across F Street, were carefully placed on a central Eighth Street axis of the L'Enfant Plan. Their physical relationship to the streetscape and the nearby 19th and early 20th century commercial buildings should not be disrupted by the imposition of a building of greater mass across Seventh Street.

. In addition, in accordance with the L'Enfant Plan, the square on which the Patent Office is built is carefully designed so that the classical porticoes of this great temple to 19th century technology project subtly out into F and G Streets, making the building the monumental focus of these two important commercial corridors. This focus would be essentially destroyed if a building of greater mass were built east of the Patent Office Building and over G Street.

. The arena would overwhelm and exert destructive development pressures on the fragile Downtown Historic District surrounding it, and create an immense intrusion on Washington's oldest downtown commercial district and the location of some of the City's earliest and finest small scale commercial buildings.

. By contrast, a well conceived mixed-use development would complement in scale and design the historic commercial buildings and the monumental cultural and federal buildings surrounding the Gallery Place site and bind the neighborhood together again as a coherent whole. Such development would in turn stimulate street life and generate a variety of arts and other activities consistent with the historic and cultural character of the Gallery Place neighborhood. This is what has happened below E Street on Seventh where good architecture and public transportation are providing a stimulus to city living and this is what should be allowed to happen above E Street.

3) THE SUBSIDIZING OF A SPORTS ARENA ON THIS SITE IS INSUPPORTABLE FINANCIALLY.

. Arena project costs to the District are conservatively estimated by the DC Council at more than \$118 million. (See attached chart.)

. In addition, by building an arena rather than the mixed used development initially envisioned in the Comprehensive Plan and the Downtown Development District on the Gallery Place site, the city would lose the opportunity to create between 500 and 1,000 potential residential units as well as office and retail space on this site. Assessed at between \$59 and \$95 million [City Auditor's Assessment 1990], the site could potentially generate as much as \$5.5 million in property taxes if it were a mixed use development.

. The Mayor and Council of Washington are obligated to foster orderly planning in the city and to protect the interests of its residents. Yet the city is contemplating providing the valuable Gallery Place site to Abe Pollin, for a private sports arena in spite of the fact that "other uses of the land that generate both property and other taxes are likely to exceed the net present value of the arena deal, since they do not require large up-front costs to the District" [Staff Report, Committee on Economic Development, February 7, 1995.]

. In addition to donating the valuable land at Gallery Place to Abe Pollin, the city is contemplating giving Mr. Pollin a property tax exemption worth over \$165 million over 30 years.

. To give away the Gallery Place site for a project that is so destructive to its physical surroundings and so ill-conceived in terms of planning and financial return is unconscionable at a time when the city is bankrupt, no longer able to provide basic services, and even considering selling the District Building.

April 1995

RESIDENTIAL ACTION COALITION

1524 "T" Street NW Washington DC 20009

August 9, 1995

Senator William Cohen, Chairman
Senate Government Affairs Committee's Oversight
of Government Management and the District of Columbia

Dear Senator Cohen:

By of introduction, I am a 47-year resident of the District of Columbia; a homeowner since 1973; a dedicated community activist since 1975. This is directed to you on behalf of the RESIDENTIAL ACTION COALITION(RAC), of which I am President.

RAC, a community-based, non-profit organization, was founded in 1983 to support the quality of residential life in the greater Dupont Circle area. We appear regularly before the city agencies which deal with historic preservation, planning, zoning, and licensing. A number of our members belong to other community groups and have been exposed to many presentations regarding the proposed arena at Gallery Place.

We deplore the situation in which the District now flounders and appeal to you to not act to rubber stamp approval of this ill-advised project. District citizens are being asked to show the new Control Board that we are capable of responsible, financial decisions. Please weigh carefully the reservations we shall now raise and not give this project a further "bum's rush."

- (1) The current convention center was erected despite widespread community opposition;
- (2) It cleared 95 small businesses for the site;
- (3) It was so ill-designed that it could not be added to; it is now obsolete; has never been self-supporting or a panacea for the District's economy;
- (4) The TECHWORLD, which violated the L'Enfant Plan, and got its height easement by false and specious combining of street widths, represented a discredited marketing technique, Trade Mart, before it even went up. It was touted as supporting the Convention Center by a "sybiotic" relationship. It is now bankrupt.

The above represent the short-sighted planning, or lack of it, which has helped put the District in its predicament. Now for the sports arena:

- (1) This is a case of a "done-deal" without community input before we learn that "It will be Gallery Place or now-where" We, and Congress, have been led to believe that

several alternate sites were considered. This is a rank misrepresentation, and I offer the following proof. In February, 1995, Advisory Neighborhood Commission(ANC) 2-C-F held a meeting for viewing of the project. A Mr. Kenneth Sparks, of the FEDERAL CITY COUNCIL, stated CATEGORICALLY that Mr. Abe Pollin never considered any other site;

- (2) The voluminous documents prepared, and by parties with bias or interest in the project, served only to support the pre-chosen site;
- (3) The financial cost to the City for the Gallery site alone, without relocation costs; demolition, has never been honestly represented;
- (4) We hear that, in some 20 years, when the arena has "out-lived its usefulness", that the debt will have been repaid. Are we to continue to construct buildings with a life of only 20 years regardless of long term havoc?
- (5) Mr.Dorn McGrath, an eminent city planner, has visited some eight cities where mega arenas succeed: ^{LIMITED} The Gallery Place site meets only one criteria, access to a metro;
- (6) We have sat through endless design showings, changes here and there to meet objections, without facing a simple truth: This is the wrong site and the TajMahal would not be right in the wrong place. We do not oppose the concept of an arena... at a suitable alternate site.

In closing, we refer to a quote from the Messers Keating and Edmonds, " A Series of Halfmeasures for the District", The Washington Times, August 9, 1995, "...A downtown sports arena will accomplish little, if anything, in terms of economic growth. If you doubt this point, just take a look at how the Bronx has prospered due to Yankee Stadium." If you love this City and regard the farreaching vision of the early planners, do not rush to desecrate this site. It deserves better than a 20-year, trendy design, as capricious and as permanent as women's hemlines. DO NOT SUPPORT THIS PROJECT!!

Cordially,

Kathryn A. Eckles
Kathryn A. Eckles, President

C C: To all senators.

COMMITTEE OF 100 ON THE FEDERAL CITY
THE YOST HOUSE, 1002 PENNSYLVANIA AVENUE, S.E. WASHINGTON, DC 20003

FOUNDED 1923

STATEMENT OF THE COMMITTEE OF 100 ON THE FEDERAL CITY
before the
DISTRICT OF COLUMBIA HISTORIC PRESERVATION REVIEW BOARD
FOR THE SECTION 106 REVIEW
of the
PROPOSED SPORTS/ENTERTAINMENT ARENA AT GALLERY PLACE
July 10, 1995

Good Afternoon, Members of the Board and Advisory Commission:

I am Dorn C. McGrath, Jr., AICP. I am a resident of the District of Columbia. Today I appear on behalf of the Committee of 100 on the Federal City, which was established more than seventy-two years ago to establish an official city planning function in the Nation's Capital and to assist others in safeguarding the heritage of the L'Enfant Plan, the Building Height Act of 1910, and the natural resources and historic heritage of Washington and the region. The Committee was one of the earliest advocates of D.C. Law 2-144 and has risen numerous times to the defense of that important legislation and its principles by public testimony and through the Court of Appeals.

The Committee of 100 is pleased to be part of this consultative process established by Section 106. We recognize the heavy responsibility that the SHPO and the Advisory Council have for the outcome of any such project, and we also recognize the sense of responsibility that all of us share for enhancing the qualities of our historic city rather than compromising them for vaguely stated, generally undocumented, economic advantages.

I am personally familiar with the Section 106 Process that you pursue here today because of my own participation in the same process as it applied to the construction of the 307-foot-tall steel commercial observation tower that looms today above the otherwise sacred National Cemetery in the Gettysburg Battlefield Park. It was a casual interpretation of the adverse effects of that tower on the dignity and serenity of the Gettysburg Battlefield twenty years ago that brought that aggressive and inappropriate tower into being.

I am personally familiar with the proposed arena planning and design process, as well as numerous details, having been appointed by Mayor Barry to his Task Force on Arena Planning and Design.

The Committee of 100 wishes to express our deep concerns that basic values of the Nation's capital are being irreparably compromised by the city's rush to approve an ill-sited sports/entertainment arena.

To put this into simple perspective, we would like to note the following fundamental aspects of historic Washington that are compromised irretrievably by this arena proposal:

- 1) Washington has been a planned city -- one in which major projects have been considered carefully in the context of the city's historic L'Enfant Plan, its Pennsylvania Avenue Development Plan, its Downtown Development Plan, its urban renewal plans, and, until recently, its Adopted Comprehensive Plan and Ward Plans.

PLACING THE PROPOSED SPORTS/ENTERTAINMENT ARENA ON THE TOO-SMALL GALLERY PLACE SITE MAKES A MOCKERY OF ORDERLY CITY PLANNING BY ANY DEFINITION OF THIS MUNICIPAL OBLIGATION. THE HASTY AMENDMENT OF THE CITY'S ADOPTED PLANS FOR THE GALLERY PLACE SITE AND ADJOINING CHINATOWN BY THE CITY COUNCIL FOR THE OBVIOUS PURPOSE OF ACCOMMODATING THE PROPOSED ARENA IN THIS LOCATION REPRESENTS A CYNICAL REJECTION OF RESPONSIBILITY FOR PLANNING AS REQUIRED BY THE CITY'S TWO-HUNDRED-YEAR OLD TRADITION AND BY THE BASIC HOME RULE ACT OF 1973.

- 2) Washington is a city much admired in history by people throughout the world for its gracious green open spaces and the scale of its buildings, historic buildings as well as newer additions to its urban fabric.

THE PROPOSED SPORTS/ENTERTAINMENT ARENA AT GALLERY PLACE IS GROTESQUELY OUT OF SCALE WITH IMPORTANT SURROUNDING BUILDINGS, ESPECIALLY THE HISTORIC BUILDINGS THAT HOUSE THE NATIONAL PORTRAIT GALLERY AND THE NATIONAL MUSEUM OF AMERICAN ART. THE SHEER BULK AND MASS OF THE PROPOSED SPORTS ENTERTAINMENT ARENA COMPRISE AN AGGRESSIVE INTRUSION INTO A DELICATE HISTORIC SETTING THAT WILL DWARF THE EXISTING COMMERCIAL BUILDINGS ON 7TH STREET AS WELL AS THOSE IN ADJOINING CHINATOWN. (See Sections) ARCHITECTURAL COSMETICS TO MITIGATE THE OVERPOWERING BULK OF THE ARENA BUILDING, EVEN IF EXECUTED IN PSEUDO-CHINESE STYLE, CAN ONLY BE REGARDED AS PALLIATIVES. THE FLIMSY REPRESENTATIONS OF THE PROPOSED ARENA'S PROFILES OFFERED IN FIGURES 4.2.3.6, 4.2.3.7, 4.2.3.8 AND 4.2.3.9 OF THE DRAFT E.I.S. ARE BLATANTLY MISLEADING, IN THAT THEY FAIL TO CONVEY ACCURATELY THE HEAVY MASS, COLOR, OR TEXTURE OF THE ARENA STRUCTURE AS IT HAS BEEN PRESENTED ELSEWHERE TO THE PUBLIC OR TO THE MAYOR'S TASK FORCE ON ARENA PLANNING AND DESIGN.

- 3) Part of historic Washington's, and Denver's, and Richmond's, and Chicago's, and Philadelphia's and Cleveland's



charm -- and basic character-- is the fact that important buildings are given adequate, dignified settings. Not grandiose and symbolic settings, such as the White House, the U.S. Capitol, or the Washington Monument have required, not pretentious settings such as that of the FNMA Building on Wisconsin Avenue, but adequate, dignified settings, such as those of the D.C. Public Library at Mt. Vernon Square, the D.C. Armory, the Pension Building, the the Frederick Douglass Home in Anacostia, the Old Naval Hospital on Pennsylvania Avenue, S.E., the U.S. Treasury on Pa. Ave. at 15th St., N.W., the Christian Scientist Church on 16th Street, N.W., the new Judiciary Administrative Building beside Union Station, the John F. Kennedy Center, and the IntelSat Building on Connecticut Avenue. The new embassies in International Square reflect the benefits of dignified sites for their varied buildings, and the new ITC on the Federal Triangle also has adhered to time-honored principles of urban design and site enhancement. And so do the National Portrait Gallery and the National Museum of American Art.

BUT THE PROPOSED ARENA AT GALLERY PLACE MAKES A MOCKERY OF THE PRINCIPLES OF GRACIOUS SITE DESIGN AND TREATMENT FOR MAJOR PUBLIC BUILDINGS, WHICH THE ARENA HAS BEEN DECLARED TO BE, FOR ZONING PURPOSES, BY OUR OWN CITY COUNCIL. THE PROPOSED NEW ARENA HAS BEEN SHOEHORND INTO A PARCEL TOO SMALL TO BEGIN WITH, ONE THAT HAS DICTATED CLOSING OFF AN HISTORIC L'ENFANT PLAN STREET AND EMINENT DOMAIN TAKING OF ADDITIONAL LAND TO CREATE A MINIMAL SITE FOR AN ARENA THAT LEAVES NO ROOM TO PROVIDE A SETTING IN KEEPING WITH WASHINGTON'S HISTORIC TRADITIONS FOR MAJOR PUBLIC BUILDINGS. INSTEAD OF PROVIDING TRANSITIONAL OPEN SPACE ON THE SITE TO RESPECT THE DIGNITY AND PRESENCE OF HISTORIC BUILDINGS IN ESTABLISHED HISTORIC DISTRICTS, THE PROPOSED ARENA TURNS ITS BACK ON CHINATOWN, ITS LOADING DOCK ACCESS AND BUS LAYBY LANES TO THE PENSION BUILDING, AND LEAVES ONLY THE EXISTING, ADMITTEDLY INADEQUATE SIDEWALKS TO BUFFER ITS 80'-HIGH BULK AGAINST THE HISTORIC SMITHSONIAN MUSEUM BUILDINGS ACROSS SEVENTH STREET.

- 4) An enduring, and indeed famous, element of historic Washington has been the L'Enfant Plan, for which federal landmark designation is pending even now. The major streets of the L'Enfant Plan have given the city its form and essential character, by providing open vistas along strategic axes as well as needed traffic circulation. The city's system of historic streets and avenues is widely admired and copied throughout the world. It is part of what should be our inalienable historic heritage.

THE PROPOSED ARENA PROJECT IS BASED ON THE ASSUMPTION THAT THE HISTORIC L'ENFANT PLAN STREETS ARE THROWAWAY ELEMENTS OF OUR NATIONAL CAPITAL. CLOSING HISTORIC G

STREET BETWEEN 6TH AND 7TH STREETS TO ACCOMMODATE THE ARENA ON A SITE STILL TOO SMALL TO FUNCTION GRACEFULLY AND WELL DEMEANS THE CITY'S HISTORIC HERITAGE. NO AMOUNT OF SO-CALLED MITIGATION CAN COMPENSATE FOR ELIMINATING SUCH AN HISTORIC GEOMETRIC ELEMENT OF THE CITY. CLOSING G STREET AS PROPOSED CONSTITUTES AN ADVERSE EFFECT ON THE HISTORIC NATIONAL CAPITAL PLAN, A FINDING OF THE NATIONAL CAPITAL PLANNING COMMISSION WITH WHICH WE COMPLETELY CONCUR.

Finally, we are deeply disturbed by the fact that our own local government, some federal officials, and influential members of the media have come to dismiss the Section 106 Process and your own deliberations as mere "bureaucratic obstacles" to be overcome on the so-called "fast track" to official approval of the proposed arena project at Gallery Place. Arena advocates clearly reflect a greater concern for the arena's artificially imposed timetable than for the content of the project, its implications for the historic city, or its financing. This attitude demeans the law, it demeans your own agencies, and it demeans our city. It is a tragedy that our city has lost credibility as a municipality capable of performing many basic functions, a city where thoughtful development planning is now a thing of the past.

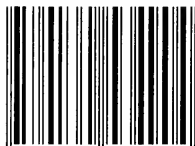
The current Section 106 Process is no mere bureaucratic obstacle -- it is, fundamentally, an episode of trial by which the credibility of historic preservation as a basic value of the Nation's Capital will be judged.

Please bear in mind that the Committee of 100 has never opposed the concept of having a major sports/entertainment arena in the District of Columbia, rather than in a suburban location. A well-located, properly designed arena on an adequate site could be both an economic benefit and a psychic boon to our city. On an inadequate site, such a facility represents a major gamble for a struggling, essentially bankrupt, local government, and it could inflict great harm on local and national historic resources. That is why we are here today. We have higher expectations for our city, the Nation's Capital.

Thank you for giving us this opportunity to state our views.



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